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

SHARE OFFER

Sole Sponsor

信達國際 CINDA INTERNATIONAL

Sole Global Coordinator

信達國際 CINDA INTERNATIONAL

Joint Bookrunners and Joint Lead Managers

信達國際 CINDA INTERNATIONAL

潮商證券有限公司 ChaoShang Securities Limited

IMPORTANT: *If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*

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)

LISTING ON GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	**:**	**200,000,000 Shares (subject to the Offer Size Adjustment Option)**
Number of Public Offer Shares	**:**	**20,000,000 Shares (subject to reallocation)**
Number of Placing Shares	**:**	**180,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option)**
Offer Price	**:**	**Not more than HK$0.80 per Offer Share and expected to be not less than HK$0.40 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	**:**	**US$0.001 per share**
Stock code	**:**	**8607**

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Co-Lead Managers

首盛資本集團 Alpha Financial Group　雅利多證券 ARISTO SECURITIES LIMITED　聯合證券 Head & Shoulders Securities　一盈證券有限公司 I WIN SECURITIES LTD.　Pacific Foundation　Supreme China Securities Limited 智華證券有限公司

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by the Price Determination Agreement to be entered into between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date or such later date as may be agreed by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters). The Offer Price will not be more than HK$0.80 per Offer Share and is expected to be not less than HK$0.40 per Offer Share, unless otherwise announced. If our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by the Price Determination Date (or such later date as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse immediately.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such case, a notice of the reduction in the number of Offer Shares being offered under the Share Offer and/or of the indicative Offer Price range will be available on the Stock Exchange's website at **www.hkexnews.hk** and the Company's website at **www.narnia.hk**.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirement of the U.S. Securities Act and in accordance with any applicable U.S. securities law. The Offer Shares are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S of the U.S. Securities Act.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Offer Shares should note that the obligations of the Underwriters under the Underwriting Agreements are subject to termination by the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the terms of such provision are set out in the section headed "Underwriting" in this prospectus. Should the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Underwriters) terminate the Underwriting Agreements, the Share Offer will not proceed and will lapse immediately.

13 February 2019

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 mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to higher market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

If there is any change in the following expected timetable, our Company will issue a separate announcement to be published on the Stock Exchange's website at ***www.hkexnews.hk*** *and our Company's website at* ***www.narnia.hk****.*

Latest time to complete electronic applications under the **HK eIPO White Form** service through the designated website at **www.hkeipo.hk**[2]	11:30 a.m. on Monday, 18 February 2019
Application lists of the Public Offer open[3]	11:45 a.m. on Monday, 18 February 2019
Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC[4]	12:00 noon on Monday, 18 February 2019
Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfers(s) or PPS payment transfer(s)	12:00 noon on Monday, 18 February 2019
Application lists of the Public Offer close[3]	12:00 noon on Monday, 18 February 2019
Expected Price Determination Date[5]	Tuesday, 19 February 2019
Announcement of the final Offer Price, the level of applications in the Public Offer, the indication of levels of interest in the Placing and the basis of allotment of the Public Offer Shares under the Public Offer to be published on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.narnia.hk**[6] on or before	Monday, 25 February 2019
Results of allocations in the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for the Public Offer Shares" from	Monday, 25 February 2019
Results of allocations in the Public Offer will be available at the designated result of allocation website at **www.tricor.com.hk/ipo/result** with a "search by ID Number/Business Registration Number" function from	Monday, 25 February 2019

Despatch/Collection of Share certificates of the Offer Shares or deposit of Share certificates of the Offer Shares into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before[7] . . . . . Monday, 25 February 2019

Despatch/Collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or wholly or partially unsuccessful applications pursuant to the Public Offer on or before[8] . . . . . Monday, 25 February 2019

Dealings in Shares on GEM expected to commence at 9:00 a.m. on . . . . . Tuesday, 26 February 2019

Notes:

(1) All dates and times refer to Hong Kong local dates and time, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus. If there is any change in this expected timetable, an announcement will be published on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.narnia.hk**.

(2) You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an payment reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 18 February 2019, the application lists will not open or close on that day. Please refer to the section headed "How to Apply for the Public Offer Shares – 10. Effect of bad weather on the opening of the application lists" in this prospectus. If the application lists do not open and close on 18 February 2019, the dates mentioned in this section headed "Expected Timetable" may be affected. We will make a press announcement in such event.

(4) Applicants who apply for the Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for the Public Offer Shares – 6. Applying by giving **electronic application instructions** to HKSCC via CCASS" in this prospectus.

(5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about 19 February 2019 and, in any event, not later than 22 February 2019 or such other date as agreed among such parties. If, for any reason, the Offer Price is not agreed among our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before 22 February 2019, or such date as agreed among such parties, the Share Offer will not proceed and will lapse immediately.

(6) None of our Company's website or any information contained on our Company's website forms part of this prospectus.

(7) Share certificates for the Public Offer Shares are expected to be issued on Monday, 25 February 2019 but will only become valid certificates of title provided that (i) the Share Offer become unconditional in all respects, and (ii) the right of termination described in the section headed "Underwriting – Underwriting arrangements and expenses – The Public Offer underwriting agreements – Grounds for termination" in this prospectus has not been exercised and has lapsed on or before 8:00 a.m. on the Listing Date. Investors who trade the Public Offer Shares on the basis of publicly available allocation details before the receipt of their Share certificates or before the Share certificates becoming valid certificates of title do so entirely at their own risk.

(8) Applicants who apply on **WHITE** Application Forms for 1,000,000 Public Offer Shares or more under the Public Offer and have provided all information required on your Application Forms, you may collect your refund cheque(s) and/or Share certificate(s) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on 25 February 2019. Applicants being individuals who apply for 1,000,000 Public Offer Shares or more and eligible for personal collection must not authorise any other person to make collection on your behalf. Applicants being corporations who are applying for 1,000,000 Public Offer Shares or more and eligible for personal collection must attend by your authorised representatives bearing letters of authorisation from your corporations stamped with the corporations' chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, must be produced at the time of collection.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Public Offer Shares or more under the Public Offer and have provided all information required by your Application Forms, you may collect your refund cheque(s), where applicable, in person but may not elect to collect your Share certificate(s), which will be deposited into CCASS for the credit of your designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheque(s) for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified above.

Uncollected Share certificate(s) and refund cheque(s) will be despatched by ordinary post at the applicants' own risk to the addresses specified on the relevant applications. Further details are set out in the section headed "How to Apply for the Public Offer Shares – 14. Despatch/Collection of share certificates and refund monies" in this prospectus.

(9) E-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price as finally determined is less than the initial Offer Price per Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before cashing your refund cheque, if any. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque. Further information is set out in the section headed "How to Apply for the Public Offer Shares" in this prospectus.

(10) Applicants who apply through the **HK eIPO White Form** service and paid your applications monies through single bank account may have refund monies (if any) despatched to your application payment bank account, in the form of e-Auto Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid your application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in your application instructions to the **HK eIPO White Form** Services Provider, in the form of refund cheques, by ordinary post at your own risk.

Particulars of the structure of the Share Offer, including the conditions thereto, are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus. Details relating to how to apply for the Public Offer Shares are set out in the section headed "How to Apply for the Public Offer Shares" in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company, solely in connection with the Share Offer and the Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or invitation in any offer in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than in Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, officers or representatives or advisers or any other person or party involved in the Share Offer. Information contained in our Company's website at ***www.narnia.hk*** *does not form part of this prospectus.*

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This summary aims to give you an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a long established textile manufacturer and printing and dyeing company in the PRC with over 15 years of experience in the textile industry. We develop polyester fabrics, which is a type of chemical fabrics, with different texture and functions, manufacture our products at our Huzhou Production Facilities and engage in direct sales to our customers. Apart from sales of fabrics, we also provide printing and dyeing services in the PRC. The following table sets forth the breakdown of the respective revenue generated from, sales volume and average unit selling price of (i) sales of fabrics; and (ii) provision of printing and dyeing services, during the Track Record Period:

	Year ended 31 December									Ten months ended 31 October						
	2016				2017					2017				2018		
	RMB'000	*%*	*Sales Volume million metres*	*Average Unit Selling Price/Metres*	*RMB'000*	*%*	*Sales Volume million metres*	*Average Unit Selling Price/Metres*	*RMB'000*	*%*	*Sales Volume million metres*	*Average Unit Selling Price/Metres*	*RMB'000*	*%*	*Sales Volume million metres*	*Average Unit Selling Price/Metres*
				RMB				*RMB*			(unaudited)	*RMB*				*RMB*
Sales of fabrics	209,098	86.3	41.3	5.1	166,735	70.0	38.3	4.4	128,920	69.6	28.8	4.5	183,134	66.8	40.5	4.5
Printing and dyeing service	33,288	13.7	59.5	0.6	71,574	30.0	121.8	0.6	56,266	30.4	97.4	0.6	91,127	33.2	151.6	0.6
Total	242,386	100.0	100.8	2.4	238,309	100.0	160.1	1.5	185,186	100.0	126.2	1.5	274,261	100.0	192.1	1.4

We possess strong research and development capabilities and we are capable of offering different series of polyester fabrics with advanced features and functional properties to our customers. These features include light-resistance, abrasion-resistance, easy-to-wash, easy-to-dry, mildew-proof and insect-proof. Apart from product variety, we also possess certain patented production techniques and dyeing methods. As at the Latest Practicable Date, we had four invention patents, which are all developed by us, and nine utility model patents registered in the PRC.

During the Track Record Period, certain of our products, such as wax-dyed imitation cotton (仿棉蠟染布) and twisted jacquard (仿絞棕提花布), were awarded the China Chemical Fibre Excellence Boutique Gold Award* (中國化纖面料名優精品金獎) and China Chemical Fibre Excellence Boutique Award* (中國化纖面料名優精品獎).

OUR HUZHOU PRODUCTION FACILITIES AND LABORATORY

Our Huzhou Production Facilities, comprising of our weaving factory and our printing and dyeing factory, are strategically located in Huzhou City, Zhejiang Province, the PRC, where we can enjoy easy access to upstream and downstream enterprises along the supply chain in the Changjiang Economic Belt as well as the latest industry news and market information. As at 31 December 2017, the designed annual production capacity at our Huzhou Production Facilities stood at approximately 12.9 million metres for our weaving factory and approximately 158.9 million metres for our printing and dyeing factory. During the Track Record Period, the utilisation rate of our weaving factory and our printing and dyeing factory were 95.6%, 94.6% and 98.8%, and 89.7%, 94.9% and 98.1%, respectively. In view of the heavy utilisation and the

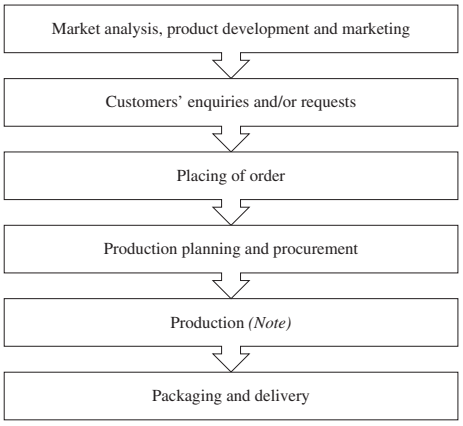
anticipated increasing market demand, we plan to expand our production capacity. For further details, please refer to the sections headed "Business – Business strategies" and "Future Plans and Use of Proceeds" in this prospectus.

Our laboratory is located in our Huzhou Production Facilities with a gross floor area of over 1,000 sq.m. and equipped with advanced machinery and equipment. We have for example, Tecnorama automated dripping and proofing system* (Tecnorama 自動滴液試樣系統) which is used for simulating the real workshop-production in our production process and facilitating the systematic combination of dyes. In our laboratory, we are able to produce samples of our products, test the dyeing effects and refine the efficiency of our production process. We also have other advanced machinery and equipment at our Huzhou Production Facilities such as Colorservice automated weighing system and fully automated pulp mixing and calibrating system* (Colorservice 自動稱料系統及全自動調漿配液系統), setting machines, dyeing machines and weaving machines (water-jet looms). In 2017, our laboratory in the Huzhou Production Facilities was recognised by the Economy and Information Commission of Zhejiang Province* (浙江省經濟和信息化委員會) as a Province-level Industrial Design Centre* (浙江省省級工業設計中心).

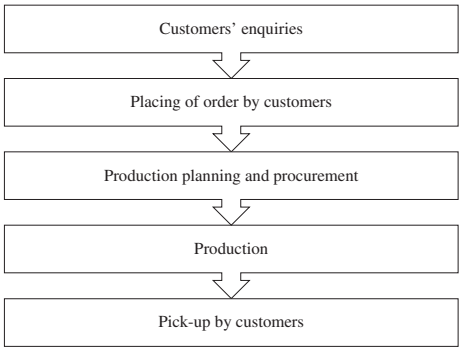
OUR BUSINESS MODEL

The following diagram summaries the typical operation flow of our (i) sales of fabrics; and (ii) provision of printing and dyeing services:

Sales of fabrics



Provision of printing and dyeing services



Note: Our entire production process of sales of fabrics commonly involves (i) weaving; and (ii) printing and dyeing. For further details of the production process, please refer to the section headed "Business – Production process" in this prospectus.

OUR CUSTOMERS

During the Track Record Period, our customers purchasing our fabrics principally consisted of manufacturers of apparels, outdoor products and home furnishing products as well as trading companies. Despite the majority of our customers were located in the PRC, our products were delivered to different countries during the Track Record Period, for instance, Mexico, South Africa, Chile, Argentina, India, Panama and Columbia. As for our provision of printing and dyeing services, our customers are mainly weaving factories and fabric processing companies. We have established stable relationships with our major customers. Among our five largest customers during the Track Record Period, we have been providing products to them for a period ranging from one to 12 years. For the two years ended 31 December 2017 and the ten months ended 31 October 2018, the percentage of revenue attributable to our largest customer amounted to approximately 28.2%, 31.7% and 25.0%, respectively, while the percentage of total revenue

attributable to our five largest customers combined amounted to approximately 59.5%, 47.9% and 45.4%, respectively.

During the Track Record Period, 19 of our customers were at the same time our suppliers. We purchased grey fabrics from these overlapping customers and suppliers while we provided printing and dyeing services to most of them. We also provided to an overlapping customer and supplier chemical fibres. Therefore, the product sold/purchased and the services received/rendered from and to these overlapping customers and suppliers were entirely different. The terms of transactions with the overlapping customers and suppliers were similar to those with our other customers and suppliers, which our Directors considered to be normal commercial terms.

RAW MATERIALS, PROCUREMENT AND SUPPLIERS

During the Track Record Period, suppliers of goods and services to our Group included mainly (i) suppliers of raw materials and auxiliary materials; (ii) subcontractors of knurling, calendaring, coating and other production processes; and (iii) transportation service providers.

Our principal raw materials for the manufacture and sales of fabrics are grey fabrics and chemical fibres. As for our provision of printing and dyeing services, the principal raw materials are dyes and other additives for fabrics. During the Track Record Period, a portion of the grey fabrics used in our production were manufactured from chemical fibres through weaving in our Huzhou Production Facilities, further details of which are set out in the section headed "Business – Production process" in this prospectus. For the remaining grey fabrics and other raw materials such as chemical fibres, dyes and additives, we sourced them mainly from domestic manufacturers in the PRC. Among our five largest suppliers during the Track Record Period, we have procured materials and services from them for a period ranging from two to 15 years. For each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, purchases from our largest supplier represented approximately 12.8%, 21.1% and 15.4% of our total purchases, respectively, and purchases from our five largest suppliers accounted for approximately 34.2%, 46.8% and 44.9% of our total purchases, respectively.

OUR COMPETITIVE STRENGTHS

Our Directors believe that we possess the following competitive strengths:

- We are strategically located in Huzhou City, Zhejiang Province, one of the top provinces for textile manufacturing in the PRC.
- We command strong research and development capabilities.
- Our production process is highly automated and enables us to produce products efficiently, cost-effectively and with high quality.
- We offer our customers a wide range of products.
- We have an experienced management team with strong industry expertise.

OUR BUSINESS STRATEGIES

Our key business strategies are to:

- expand our production capacity and upgrade the existing machinery and equipment at our Huzhou Production Facilities;
- continuously dedicate to our research and development projects; and
- enhance our environmental protection and quality control systems.

MARKET AND COMPETITION

According to Frost & Sullivan Report, the competitive landscape of the textile fabric manufacturing & printing and dyeing industry in the PRC are fragmented with over thousands of players manufacturing different types of fabric products. In 2017, the top five textile fabric manufacturers in the PRC contributed to approximately 1.6% of the overall textile fabric manufacturing industry. We held approximately 0.02% market share in textile fabric manufacturing industry and 0.02% market share in textile fabric printing and dyeing industry, in the PRC in 2017. On the other hand, the consumer market is characterised by the constantly changing requirement in terms of products design and functions. Market participants with research and development capabilities to adapt to consumers' changing demand will be a competitive edge against the others.

SUMMARY OF FINANCIAL INFORMATION

Highlight of our consolidated statements of profit or loss and other comprehensive income

The following table summarises the selected items in our consolidated statements of profit or loss and other comprehensive income for the two years ended 31 December 2017 and the ten months ended 31 October 2018. For more details, please see the section headed "Financial Information" in this prospectus.

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	242,386	238,309	185,186	274,261
Cost of sales and services	(207,382)	(192,247)	(148,848)	(220,523)
Gross profit	35,004	46,062	36,338	53,738
Gains on disposal of an associate *(Note)*	–	–	–	23,003
Listing expenses	–	–	–	(11,726)
Profit and total comprehensive income for the year/period	8,921	17,773	11,447	41,535
Profit and total comprehensive income for the year/period attributable to:				
– Owners of our Company	8,353	13,947	9,025	34,746
– Non-controlling interests	568	3,826	2,422	6,789
	8,921	17,773	11,447	41,535

Note: It represents the gain recognised in respect of the disposal of equity interest of Changxing Hengli Financing to an Independent Third Party for a consideration of approximately RMB35.0 million on 30 March 2018.

Our total revenue was approximately RMB242.4 million, RMB238.3 million, RMB185.2 million and RMB274.3 million for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, respectively. Revenue from the sales of fabrics decreased by approximately 20.3% from approximately RMB209.1 million for the year ended 31 December 2016 to approximately RMB166.7 million for the year ended 31 December 2017 reflecting the decrease of total volume of fabric sold from approximately 41.3 million metres in the previous year to approximately 38.3 million metres which was due to the expansion of our Group's printing and dyeing services which are generally with a higher profit margin. Revenue from the sales of fabrics increased by approximately 42.0% from approximately RMB128.9 million for the ten months ended 31 October 2017 to approximately RMB183.1 million for the ten months ended 31 October 2018 reflecting the increase of total volume of fabrics sold from

approximately 28.8 million metres for the ten months ended 31 October 2017 to approximately 40.5 million metres for the ten months ended 31 October 2018.

Service revenue from printing and dyeing increased by approximately 115.0% from approximately RMB33.3 million for the year ended 31 December 2016 to approximately RMB71.6 million for the year ended 31 December 2017. Such significant increase was mainly due to the expansion of our Group's printing and dyeing services, which was a result of our increased capacity to provide more printing and dyeing services after the completion of our technical upgrade. The increase of approximately RMB34.8 million or 61.8% from approximately RMB56.3 million for the ten months ended 31 October 2017 to approximately RMB91.1 million for the ten months ended 31 October 2018, was primarily attributable to (i) our continuation of focus on services revenue from printing and dyeing based on the relatively higher gross profit margin of approximately 33.3% for the service revenue from printing and dyeing compared to approximately 12.8% for the sales of fabrics; (ii) the increased sales orders for printing and dyeing services from our existing customers for the ten months ended 31 October 2018; and (iii) the temporary disruption to our production processes during the technical upgrade starting from January 2017.

Gross profit and gross profit margin

Our gross profit was approximately RMB35.0 million, RMB46.1 million, RMB36.3 million and RMB53.8 million for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, respectively. The table below sets out our gross profit and gross profit margin by sales category during the Track Record Period:

	Year ended 31 December				Ten months ended 31 October			
	2016		2017		2017		2018	
	Gross Profit *RMB'000*	Gross Profit Margin *%*	Gross Profit *RMB'000*	Gross Profit Margin *%*	Gross Profit *RMB'000*	Gross Profit Margin *%*	Gross Profit *RMB'000*	Gross Profit Margin *%*
					(unaudited)			
Sales of fabrics	26,982	12.9	22,159	13.3	18,656	14.5	23,373	12.8
Printing and dyeing service	8,022	24.1	23,903	33.4	17,682	31.4	30,365	33.3
Total/overall	35,004	14.4	46,062	19.3	36,338	19.6	53,738	19.6

During the Track Record Period, the gross profit margin of our sales of fabrics was within a range of approximately 12.8% to 14.5%. The gross profit margin of our sales of fabrics decreased by approximately 1.7% from approximately 14.5% for the ten months ended 31 October 2017 to approximately 12.8% for the ten months ended 31 October 2018. Such decrease was mainly due to the change in product mix of the purchase orders from our customers as well as the management's strategic sales and production of fabric products involving simpler production process, cheaper selling price and lower gross profit margin.

During the Track Record Period, the gross profit margin of our printing and dyeing service was within a range of approximately 24.1% to 33.4%. The gross profit margin of our printing and dyeing service increased by 9.3% from approximately 24.1% for the year ended 31 December 2016 to approximately 33.4% for the year ended 31 December 2017 as our Group underwent technical upgrade of our printing and dyeing machinery and equipment in the Huzhou Production Facilities in 2017. For more details, please see the section headed "Financial Information – Gross profit and gross profit margin" in this prospectus.

Gain on disposal of an associate and material investments

Our net profit was approximately RMB41.5 million for the ten months ended 31 October 2018, of which approximately 55.4% was the gain recognised from the disposal of our equity interest in Changxing Hengli Financing to an Independent Third Party on 30 March 2018. After the Track Record Period, our Group has entered into a sale and purchase agreement in relation to the disposal of 7,565,794 shares (representing approximately 1.07% of the total number of shares) in Changxing Rural Commercial Bank to an Independent Third Party on 18 December

2018. Our Group did not have any other material investments as at the Latest Practicable Date which can be realised to improve our liquidity position after the aforesaid disposals. For further details, please refer to the section headed "History, Development and Reorganisation – Company excluded from our Group during the Reorganisation and disposal of shares in Changxing Rural Commercial Bank" in this prospectus.

Selected financial information from our consolidated statement of financial position

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Current assets	135,466	110,119	112,731
Current liabilities	179,753	167,312	152,580
Net current liabilities	(44,287)	(57,193)	(39,849)
Non-current assets	138,678	147,905	147,110
Non-current liabilities	2,616	6,607	14,240
Net assets	91,775	84,105	93,021
Total equity	91,775	84,105	93,021

Our Group recorded a net current liabilities position as at 31 December 2016 and 2017 and 31 October 2018, primarily due to the large amount of capital expenditure, which was invested in machinery and equipment as well as our own production facilities as reported under our non-current assets, being funded by bank borrowings of which the current portion were reported under our current liabilities.

In order to relieve from our financial stress, our Group and an Independent Third Party, namely Zhejiang Hongchen Printing and Dyeing Co., Ltd.* (浙江弘晨印染科技股份有限公司) ("**Zhejiang Hongchen**"), entered into a sale and purchase agreement, pursuant to which Zhejiang Hongchen agreed to purchase 7,565,794 shares (representing approximately 1.07% of the total number of shares) in Changxing Rural Commercial Bank at a consideration of RMB20 million on 18 December 2018. Such consideration was based on a valuation report issued by an independent valuer and the estimated fair value of the approximately 1.07% equity interest in Changxing Rural Commercial Bank was approximately RMB18.7 million as at 31 May 2018. For further details, please refer to the section headed "History, Development and Reorganisation – Disposal of shares in Changxing Rural Commercial Bank" in this prospectus.

We also plan to take or have taken the following measures:

(i) obtaining long-term loan facilities from financial institutions in order to reduce the current liabilities; and

(ii) utilising the cash generated from operating activities.

For details, please refer to the section headed "Financial Information – Analysis of financial position – Going concern and working capital sufficiency" in this prospectus.

Selected financial information from our consolidated statements of cash flows

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(unaudited)	
Net cash (used in)/generated from operating activities	(7,491)	57,834	38,908	50,108
Net cash generated from/(used in) investing activities	13,393	(20,370)	(17,900)	17,346
Net cash generated from/(used in) financing activities	369	(41,453)	(25,431)	(69,011)
Net increase/(decrease) in cash and cash equivalents	6,271	(3,989)	(4,423)	(1,557)
Cash and cash equivalents at beginning of financial year/period	3,037	9,439	9,439	5,062
Effect of exchange rate change	131	(388)	(456)	(342)
Cash and cash equivalents at end of financial year/period	9,439	5,062	4,560	3,163

Key financial ratios

	As at/Year ended 31 December 2016	2017	As at/ Ten months ended 31 October 2018
Gross margin (%)	14.4	19.3	19.6
Net profit margin (%)	3.4	5.9	12.7
Return on total assets (%)	3.0	5.4	13.4
Return on equity (%)	11.5	21.3	37.4
Current ratio (times)	0.8	0.7	0.7
Quick ratio (times)	0.4	0.2	0.3
Interest coverage ratio (times)	2.3	3.5	8.4
Gearing ratio (%)	140.9	161.6	119.5

Our gearing ratio, calculated by using total debt divided by total equity at the end of the year/period and multiplied by 100%, which was 140.9%, 161.6% and 119.5% as at 31 December 2016 and 2017 and 31 October 2018, respectively. For risks associated with our high gearing ratio, please refer to the section headed "Risk Factors – Risks relating to our Business – We incurred continuous net current liabilities as at 31 December 2016 and 2017 and 31 October 2018 and had a high gearing ratio. We may be exposed to liquidity risks and our business, financial conditions and operation results may be materially and adversely affected" in this prospectus.

For detailed calculation and discussion of our key financial ratios, please refer to the section headed "Financial Information – Analysis of key financial ratios" in this prospectus.

ACCUMULATED LOSSES

Our Group recorded accumulated losses attributable to owners of our Company as at 1 January 2016, 31 December 2016 and 31 December 2017 in our consolidated statements of changes in equity:

	As at			
	1 January 2016	31 December 2016	31 December 2017	31 October 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Accumulated losses)				
Retained profits attributable to owners of our Company	(31,867)	(18,843)	(25,625)	11,400

The accumulated losses attributable to owners of our Company of approximately RMB31.9 million as at 1 January 2016 were mainly due to the accumulated share of losses of an associate, Changxing Hengli Financing and the declaration and payment of dividends during the year ended 31 December 2015.

We recorded a decrease in our accumulated losses attributable to owners of our Company to approximately RMB18.8 million as at 31 December 2016, mainly due to the profitable operations of our Group in the financial year. As at 31 December 2017, we recorded accumulated losses attributable to owners of our Company of approximately RMB25.6 million, mainly due to the declaration and payment of dividends attributable to owners of the Company of approximately RMB20.2 million in 2017 which offset the profit and total comprehensive income for the year. As at 31 October 2018, we recorded retained earning attributable to owners of our Company of approximately RMB11.4 million, mainly due to the profitable operations of our Group during the relevant period. For further details on the accumulated losses of our Group, please refer to the section headed "Financial Information – Accumulated losses" in this prospectus.

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), our Company will be owned as to approximately 59.11% by Spring Sea, which is owned as to approximately 53.98% by Mr. Dai and approximately 46.02% by Ms. Song and jointly controlled by them pursuant to the Acting in Concert Undertaking. Spring Sea, Mr. Dai and Ms. Song will be directly or indirectly holding approximately 59.11% of the issued share capital of our Company and are regarded as a group of Controlling Shareholders under the GEM Listing Rules. Each of our Controlling Shareholders, our Directors and their respective close associates does not have any interests apart from the business of our Group which competes or may compete with the business of our Group and which requires disclosure pursuant to Rule 11.04 of the GEM Listing Rules. For further details, please refer to the section headed "Relationship with Controlling Shareholders" in this prospectus.

DIVIDENDS

During the year ended 31 December 2017, Huzhou Narnia had declared a final dividend for the financial year ended 31 December 2016 and an interim dividend for the 11 months ended 30 November 2017 with a total of approximately RMB25.8 million to its equity holders prior to the Reorganisation. Other than the above, during the Track Record Period, no dividends have been declared and paid by the companies now comprising our Group to their then respective shareholders.

We have adopted a dividend policy on 29 January 2019 and our Board has absolute discretion as to whether to declare any dividend for any year end and if any, the amount of dividend and the means of payment. Such discretion is subject to any applicable laws and regulations including the Companies Law and our Articles. Subject to the Companies Law and our Articles, our Company may in general meeting declare dividends, but no dividends shall exceed the amount recommended by our Board. Our Board may, subject to our Articles, from time to time pay to our Shareholders such dividends as appear to our Board to be justified by the financial conditions and the profits of our Company. Our Board may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of our Company as it thinks fit. The amount of any dividends to be declared and paid in the future may depend on, among other things, results of operations, earnings, cash flows, financial conditions, capital requirements, etc. and there is no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all. Currently, we do not have any predetermined dividend distribution ratio.

LISTING EXPENSES

Our Directors are of the view that the financial results of our Group for the year ended 31 December 2018 are expected to be adversely affected by the Listing expenses in relation to the Share Offer, the nature of which is non-recurring. The total Listing fees in relation to the Share Offer, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately RMB33.9 million (based on the mid-point of the indicative Offer Price range of HK$0.40 per Offer Share and HK$0.80 per Offer Shares). Among the estimated total Listing fees, (i) approximately RMB15.1 million is expected to be accounted for as a deduction from equity upon the Listing; and (ii) approximately RMB18.8 million would be recognised as expenses in our consolidated statements of profit or loss, of which approximately RMB11.7 million had been recognised up to 31 October 2018 and the balance of approximately RMB7.1 million is expected to be recognised upon Listing.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2018

Estimated consolidated profit attributable to owners of our Company	not less than RMB39 million
Unaudited pro forma estimated profit per Share for the year ended 31 December 2018[(2)(3)]	no less than RMB4.92 cents

Notes:

(1) The estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2018 has taken into account of our estimated Listing expenses of approximately RMB13 million incurred during the year ended 31 December 2018.

(2) The unaudited pro forma estimated profit per Share for the year ended 31 December 2018 has been prepared in accordance with paragraph 7.31 (1) of the GEM Listing Rules on the basis set out in the notes below for the purpose of illustrating the effect of the Share Offer and the Capitalisation Issue, as if they had taken place on 1 January 2018. The unaudited pro forma estimated profit per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial results following the Share Offer.

(3) The calculation of the unaudited pro forma estimated profit per Share is based on the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2018 and assuming a weighted average of 795,796,000 Shares in issue during the year ended 31 December 2018 and the proposed Share Offer and the Capitalisation Issue had been completed on 1 January 2018 without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase shares as referred to in the paragraphs headed "A. Further information about our Group – 6. Written resolutions of all Shareholders passed on 29 January 2019" or "7. Repurchase of the Share" in Appendix V to this prospectus. The estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2018 has not taken into account any interest income that would have been earned if the proceeds from the Share Offer had been received by the Company on 1 January 2018.

NO MATERIAL ADVERSE CHANGE

Save for the Listing expenses of approximately RMB7.1 million which will be recognised upon Listing, our Directors do not expect to have any material adverse change in our financial or trading position or prospect since 31 October 2018, being the date of which our latest audited financial information was prepared up to the date of this prospectus and there had been no event since 31 October 2018 which would materially affect the information shown in Appendix I to this prospectus.

USE OF PROCEEDS

Assuming the Offer Size Adjustment Option is not exercised at all, based on the Offer Price of HK$0.60 per Offer Share (being the mid-point of the indicative Offer Price range), the net proceeds of the Share Offer, after deduction of underwriting fees and other expenses payable by our Company in relation to the Share Offer, are estimated to be approximately HK$80.3 million (equivalent to approximately RMB69.2 million). Our Company currently intends to use the net proceeds from the Share Offer as follows:

	From the Latest Practicable Date to 30 June 2019 *(RMB million)*	**31 December 2019** *(RMB million)*	**30 June 2020** *(RMB million)*	**31 December 2020** *(RMB million)*	**Total** *(RMB million)*	**Approximate % of the net proceeds from the Share Offer**
Construction of new weaving factory	4.0	8.0	3.5	–	15.5	22.4
Renovation of the existing weaving factory	5.0	4.5	–	–	9.5	13.7
Acquisition of machinery, equipment and ancillary facilities for weaving	7.1	9.2	2.8	–	19.1	27.6
Acquisition of machinery, equipment and ancillary facilities for printing and dyeing	8.4	–	–	–	8.4	12.1
Enhancement of environmental protection infrastructure	–	6.0	3.9	–	9.9	14.3
General working capital	6.8	–	–	–	6.8	9.9
	31.3	27.7	10.2	–	69.2	100.0

Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus for further details.

STATISTICS OF THE SHARE OFFER

	Based on Offer Price of HK$0.40 per Offer Share	**Based on Offer Price of HK$0.80 per Offer Share**
Market capitalisation of our Shares expected to be in issue following completion of the Share Offer and the Capitalisation Issue *(Note 1)*	HK$320.0 million	HK$640.0 million
Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to owners of our Company *(Note 2)*	HK$0.21	HK$0.30

Notes:

1. The calculation of market capitalisation is based on 800,000,000 Shares expected to be in issue immediately following the completion of the Capitalisation Issue and the Share Offer without taking into account any Shares which may be issued upon exercise of any of the Offer Size Adjustment Option.

2. Please see the section headed ''Appendix II – Unaudited pro forma financial information'' for further details regarding the assumptions used and the calculation method.

HIGHLIGHT OF RISK FACTORS

Our business is subject to a number of risks and you should read the entire "Risk Factors" section before you decide to invest in the Offer Shares. Some of the major risks we face include (i) our business, results of operations and financial conditions could be adversely affected by the global economic downturn and adverse market and macroeconomic conditions, especially if there is a downturn in our downstream industries; (ii) we incurred continuous net current liabilities as at 31 December 2016 and 2017 and 31 October 2018 and had a high gearing ratio. We may be exposed to liquidity risks and our business, financial conditions and operation results may be materially and adversely affected; (iii) we have not entered into long-term agreements with our customers and our suppliers; (iv) our profitability will be affected by the selling price of major raw materials and our products and we may not be able to sustain current profitability; (v) any issue with product quality could result in defective or unsatisfactory products, which may lead to loss of customers and sales and may subject us to product liability claims, which could result in significant costs and negatively impact our reputation; (vi) our financial performance may be affected by fluctuations in the price of raw materials and we may not be able to pass on the increase in raw materials cost to our customers; and (vii) our production facilities are subject to environmental laws in the PRC and any failure to comply with environmental regulations would expose us to penalties, fines, suspensions or actions in other forms.

Please refer to the section headed "Risk Factors" in this prospectus for further details.

NON-COMPLIANCE

During the Track Record Period, we entered into certain non-compliant bill financing arrangements with Independent Third Parties. Our Group has ceased all such non-compliant bill financing arrangements since 2 May 2017. Save for the aforesaid non-compliance incident, we are not aware of any material or systemic non-compliance of our Group under the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date. For further details of our non-compliance incident, please refer to the section headed "Business – Legal proceedings and compliance – Non-compliant bill financing" in this prospectus.

RECENT DEVELOPMENT

Our business model has remained unchanged and our revenue and cost structure has remained stable since 31 October 2018.

During the Track Record Period, our Group received government subsidies in connection with the enterprise development support, innovation capabilities incentives and various tax refund. However, the government subsidies were in general discretionary with varying amounts depending on each of the subsidy programmes and there is no assurance that our Group will be able to receive government subsidies in the future.

Save as disclosed in the paragraph headed ''Listing expenses'' in this section, our Directors confirm that, since 31 October 2018 and up to the Latest Practicable Date, there had not been any material adverse change in the market conditions or the industry and environment in which we operate that had materially and adversely affected our financial or operating position.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

"Accountants' Report"	the accountants' report on our Group for the Track Record Period set out in Appendix I to this prospectus
"Acting in Concert Undertaking"	a confirmation and undertaking entered into between Mr. Dai and Ms. Song dated 11 August 2018. For details, please refer to the section headed "History, Development and Reorganisation" in this prospectus
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s), or where the context so requires, any of them, relating to the Public Offer
"Articles of Association" or "Articles"	the amended and restated articles of association of our Company adopted on 29 January 2019, and as amended, supplemented or otherwise modified from time to time, a summary of which is set forth in Appendix IV to this prospectus
"associate(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Autumn Sky"	Autumn Sky Star Investment Limited, a company incorporated in the BVI with limited liability on 16 October 2017, a wholly-owned subsidiary of our Company
"Board" or "Board of Directors"	our board of Directors
"business day" or "Business Day"	any day (other than a Saturday, Sunday or public holiday) on which licenced banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"Capitalisation Issue"	the issue of 550,000,000 Shares to be made upon capitalisation of the amount of US$550,000 standing to the credit of the share premium account of our Company referred to in the paragraph headed "A. Further information about our Group – 6. Written resolutions of all Shareholders passed on 29 January 2019" in Appendix V to this prospectus

"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
"CCASS Operational Procedures"	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"Changxing Hengli Financing"	Changxing Hengli Financing Company Limited* (長興恒力小額貸款有限公司), a company established in the PRC with limited liability on 28 May 2010 of which approximately 23.34% of its equity interest was owned by Huzhou Narnia. Huzhou Narnia had disposed of such equity interest to an Independent Third Party on 30 March 2018
"Changxing Hengli Investment"	Changxing Hengli Investment Company Limited* (長興恒力投資有限公司) (currently known as Changxing Hengye Trading Limited* (長興恒燁貿易有限公司)), a company established in the PRC with limited liability on 14 June 2007 which was a shareholder of Huzhou Narnia from 11 July 2008 up to 10 May 2018
"Changxing Rural Commercial Bank"	Zhejiang Changxing Rural Commercial Bank Company Limited* (浙江長興農村商業銀行股份有限公司), a licenced bank in the PRC. Huzhou Narnia has entered into a sale and purchase agreement in relation to the disposal of 7,565,794 shares in it to an Independent Third Party on 18 December 2018

"Changxing Seashore"	Changxing Seashore Industrial Co., Ltd.* (長興濱里實業有限公司), a company established in the PRC with limited liability on 23 October 2012 and an indirectly wholly-owned subsidiary of our Company
"ChaoShang Securities"	ChaoShang Securities Limited, a licenced corporation under the SFO to conduct type 1 (dealing in securities) and type 2 (dealing in future contracts) regulated activities, being one of the Joint Bookrunners and the Joint Lead Managers and one of the Underwriters
"Cinda International" or "Sole Sponsor" or "Sole Global Coordinator"	Cinda International Capital Limited, a licenced corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, being the sole sponsor to our Company for the Listing
"close associate(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Co-Lead Managers"	Alpha Financial Group Limited, a licenced corporation under the SFO to conduct type 1 (dealing in securities) regulated activities; Aristo Securities Limited, a licenced corporation under the SFO to conduct type 1 (dealing in securities) regulated activities; Head & Shoulders Securities Limited, a licenced corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in future contracts) and type 4 (advising on securities) regulated activities; I Win Securities Limited, a licenced corporation under the SFO to conduct type 1 (dealing in securities) regulated activities; Pacific Foundation Securities Limited, a licenced corporation under the SFO to conduct type 1 (dealing in securities) and type 9 (asset management) regulated activities; and Supreme China Securities Limited, a licenced corporation under the SFO to conduct type 1 (dealing in securities) regulated activities, being the co-lead managers of the Share Offer
"Companies Law"	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Narnia (Hong Kong) Group Company Limited (納尼亞(香港)集團有限公司) (formerly known as Narnia (HongKong) Group Co., Ltd), an exempted company incorporated in the Cayman Islands under the Companies Law with limited liability on 1 September 2017
"connected person(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"connected transaction(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it thereto under the GEM Listing Rules, and for the purpose of this prospectus, refers to Mr. Dai, Ms. Song and Spring Sea
"core connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Corporate Governance Code"	Appendix 15 to the GEM Listing Rules, as amended, supplemented or otherwise modified from time to time
"Deed of Indemnity"	the deed of indemnity dated 12 February 2019 given by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for our subsidiaries from time to time), details of which are set out in the paragraph headed "E. Other information – 1. Tax and other indemnities" in Appendix V to this prospectus
"Director(s)"	the director(s) of our Company
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company
"Frost & Sullivan Report"	an industry report commissioned by our Company and prepared by Frost & Sullivan for the purpose of this prospectus
"FVTOCI"	fair value through other comprehensive income
"FVTPL"	fair value through profit or loss

"GEM"	GEM operated by the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or modified from time to time
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **HK eIPO White Form** Service Provider designated by our Company
"Group" or "our Group"	our Company and its subsidiaries at the relevant time or, where the context refers to any time prior to our Company becoming the holding company of our present subsidiaries, such subsidiaries and the business carried on by such subsidiaries or (as the case may be) our predecessors, and "we", "our" or "us" shall be construed accordingly
"Hengye Development"	Hengye Development Limited (恒燁發展有限公司), formerly known as Huawei Development Limited (華為發展有限公司), a company incorporated in Hong Kong with limited liability on 30 October 2017 and an indirectly wholly-owned subsidiary of our Company
"HK$" or "Hong Kong Dollars" or "HK Dollars"	Hong Kong dollars, lawful currency of Hong Kong
"**HK eIPO White Form**"	the application of the Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website at **www.hkeipo.hk**
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified on the designated website at **www.hkeipo.hk**
"HKFRS" or "HKFRSs"	Hong Kong Financial Reporting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchange and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited, our Hong Kong branch share registrar and transfer office of our Company
"Huzhou Narnia"	Huzhou Narnia Industry Co., Ltd.* (湖州納尼亞實業有限公司), a company established in the PRC with limited liability on 5 August 2002 and an indirectly wholly-owned subsidiary of our Company
"Huzhou Production Facilities"	the production facilities of our Group located in Jiapu Economic Development Area* (夾浦經濟開發區), Huzhou City, Zhejiang Province, the PRC, comprising (i) our weaving factory at Hongqi Village, Jiapu Town* (夾浦鎮紅旗村) and (ii) our printing and dyeing factory at Industrial Park, Jiapu Town* (夾浦鎮工業園區)
"Independent Third Party(ies)"	individual(s) or company(ies) who or which is/are not, as far as our Directors are aware after having made all reasonable enquiries, a connected person(s) (within the meaning of the GEM Listing Rules) of our Company
"Joint Bookrunners" or "Joint Lead Managers"	Cinda International and ChaoShang Securities, being the joint bookrunners and the joint lead managers of the Share Offer
"Latest Practicable Date"	4 February 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	the listing of the Shares on GEM
"Listing Committee"	the listing sub-committee of the directors of the Stock Exchange
"Listing Date"	the date on which our Shares are first listed and from which dealings in our Shares are permitted to take place on GEM, which is expected to be on or about 26 February 2019
"Main Board"	the stock exchange (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with GEM

"Memorandum of Association" or "Memorandum"	the amended and restated memorandum of association of our Company, adopted on 29 January 2019, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix IV to this prospectus
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Dai"	Mr. Dai Shunhua (戴順華), the chairman of our Board, our executive Director, chief executive officer, a Controlling Shareholder and the spouse of Ms. Song
"Ms. Song"	Ms. Song Xiaoying (宋曉英), our executive Director, a Controlling Shareholder and the spouse of Mr. Dai
"Narnia International"	Narnia International (Hong Kong) Limited (納尼亞國際(香港)有限公司), a company incorporated in Hong Kong with limited liability on 25 July 2013 and an indirectly wholly-owned subsidiary of our Company
"NEEQ"	the National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
"Offer Price"	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for or purchased pursuant to the Share Offer, to be determined in the manner further described in the section headed "Structure and Conditions of the Share Offer – Offer Price" in this prospectus
"Offer Share(s)"	collectively, the Placing Shares and Public Offer Shares

"Offer Size Adjustment Option"	the option to be granted by our Company to the Underwriters under the Underwriting Agreements, exercisable by the Sole Global Coordinator (for itself and on behalf of the Underwriters), pursuant to which, if the final Offer Price as agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) is less than HK$0.50 per Offer Share, such that the size of the Share Offer is less than HK$100 million, our Company may be required by the Sole Global Coordinator to allot and issue up to 30,000,000 additional new Shares, representing 15% of the total number of Offer Shares at the Offer Price, details of which are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Placing"	the conditional placing of the Placing Shares by the Placing Underwriters for and on behalf of our Company together with, where relevant, any additional Offer Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option for cash at the Offer Price, to the selected institutional and professional investors as set forth in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Placing Share(s)"	the 180,000,000 new Shares at the Offer Price pursuant to the Placing, subject to reallocation and the exercise of the Offer Size Adjustment Option as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Placing Underwriter(s)"	the underwriter(s) of the Placing, who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
"Placing Underwriting Agreement"	the conditional placing underwriting agreement relating to the Placing expected to be entered into among our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Placing Underwriters, particulars of which are summarised in the section headed "Underwriting" in this prospectus

"PRC" or "China"	the People's Republic of China, which for the purpose of this prospectus only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Government"	the central government of the PRC including all government departments (including provincial, municipal and other regional or local government entities) and organisations thereof or, as the context requires, any of them
"PRC Legal Advisers"	AllBright Law Offices, the legal advisers to our Company as to the PRC law in connection with the Listing
"Predecessor Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force to 3 March 2014, being the effective date of the Companies Ordinance
"Price Determination Agreement"	the agreement expected to be entered into between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date to record the agreement on the final Offer Price
"Price Determination Date"	the date expected to be on or around 19 February 2019 on which the final Offer Price is to be fixed for the purpose of the Share Offer but in any event no later than 22 February 2019
"Public Offer"	the offer of the Public Offer Shares for subscription by the members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), payable in full on application, and subject to the terms and conditions described in this prospectus and the Application Forms
"Public Offer Share(s)"	the 20,000,000 new Shares being initially offered by our Company for subscription pursuant to the Public Offer, subject to reallocation as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Public Offer Underwriter(s)"	the underwriter(s) of the Public Offer listed in the section headed "Underwriting – Public Offer Underwriters" in this prospectus

"Public Offer Underwriting Agreement"	the conditional public offer underwriting agreement dated 12 February 2019 relating to the Public Offer entered into among our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, particulars of which are summarised in the section headed "Underwriting" in this prospectus
"Reorganisation"	the corporate reorganisation of our Group in preparation for the Listing as described in the section headed "History, Development and Reorganisation" in this prospectus
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家税務總局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) with par value of US$0.001 each in the share capital of our Company
"Share Offer"	the Placing and the Public Offer
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 29 January 2019, the principal terms of which are summarised in the paragraph headed "D. Share Option Scheme" in Appendix V to this prospectus
"Shareholder(s)"	holder(s) of Share(s)

"Skyhope"	Skyhope International Holding Limited, a company incorporated in Hong Kong with limited liability on 11 September 2017, which was a shareholder of Huzhou Narnia from 28 October 2017 to 10 May 2018
"Spring Sea"	Spring Sea Star Investment Limited, a company incorporated in the BVI with limited liability on 14 June 2017, which was owned as to approximately 53.98% by Mr. Dai and 46.02% by Ms. Song, respectively, as at the Latest Practicable Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto under the GEM Listing Rules
"substantial shareholder(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Summer Land"	Summer Land Star Investment Limited, a company incorporated in the BVI with limited liability on 5 July 2017, which was owned as to approximately 31.61% by Ms. Wang Yun, 26.41% by Mr. Zhang Weiming, 23.16% by Ms. Fang Fang, 6.25% by Ms. Zhang Yuzhen, 3.29% by Ms. Yu Aidi, 3.13% by Ms. Chen Jiao, 3.09% by Ms. Zhang Miaofen and 3.06% by Ms. Wu Aixia, respectively, as at the Latest Practicable Date
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Track Record Period"	the two years ended 31 December 2017 and the ten months ended 31 October 2018
"Underwriters"	the Placing Underwriters and the Public Offer Underwriters
"Underwriting Agreements"	the Placing Underwriting Agreement and the Public Offer Underwriting Agreement
"U.S." or "US" or "United States"	the United States of America
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

"US$", "US dollars" or "USD"	United States dollars, the lawful currency of the United States
"**WHITE** Application Form(s)"	the application form(s) for the Public Offer Shares for use by the public who require such Public Offer Shares to be issued in the applicant's own name
"**YELLOW** Application Form(s)"	the application form(s) for the Public Offer Shares for use by the public who require such Public Offer Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS
"Zhejiang Senlaite"	Zhejiang Senlaite Industry and Trading Technology Limited* (浙江森萊特工貿科技有限公司), a company established in the PRC with limited liability on 25 February 2003, which is owned as to 63.86% by Changxing Hengli Investment
"%"	per cent

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as total in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any discrepancy between the Chinese names or titles of the PRC laws and regulations or other Chinese documents mentioned in this prospectus and their English translations, the Chinese version shall prevail. If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translations of company or entity names in Chinese or another language which are marked with "" and the Chinese translations of company names in English which are marked with "*" are for identification purpose only.*

This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to our Company and our business. These terms and their given meanings may not correspond to standard industry meanings and usage.

"CAGR"	compound annual growth rate, a method of assessing the average growth of a value over time
"chemical fabrics"	fabrics which use chemical fibres as raw materials
"CIF"	acronym for cost, insurance and freight, a contractual term that requires the seller to arrange for the carriage of goods by sea to a port of destination and to procure marine insurance against the risk of loss or damage to the goods during the transit
"density count"	represents the number of yarns composing a polyester fabric, which directly affects the softness of the textile produced. The higher the number of counts, the softer the textile feels
"fabric"	a flexible material made by, among others, weaving or knitting
"fibres"	filaments collectively, or matter or material composed of filaments
"FOB"	acronym for free (freight) on board, a contractual term that requires the seller to pay for the transportation of the goods to the port of shipment, plus loading costs
"grey fabrics"	fabrics before they are printed or dyed
"ISO"	International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
"loom"	a device used to weave cloth. A loom holds the warp threads under tension to facilitate the interweaving of the weft threads
"polyester fabrics"	a type of chemical fabrics
"sq.m."	square metre

"weaving"	a method of textile production in which two distinct sets of yarns or threads are interlaced at right angles to form a fabric or cloth

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. When used in this prospectus, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "might", "plan", "project", "propose", "seek", "should", "target", "will", "would" and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and our operating and expansion plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- future events and developments, trends and conditions in the industry and markets in which we operate or plan to operate;
- our financial conditions and performance; and
- our ability to identify and successfully take advantage of new business development opportunities.

Such statements reflect the current views of our management with respect to future events, operations, profitability, liquidity and capital resources, some of which may not materialise or may change. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, without limitation, the risks factors set out in the section headed "Risk Factors" in this prospectus and the following:

- changes in the laws, rules and regulations applicable to us;
- general economic, market and business conditions in the PRC, including the sustainability of the economic growth in the PRC;
- changes or volatility in interest rates, foreign exchange rates or other rates or prices;
- business opportunities and expansion that we may pursue;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices; and
- other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other

risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed "Risk Factors" in this prospectus.

In this prospectus, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

Prospective investors should consider carefully all the information set forth in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the Share Offer. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospects of our Group. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Offer Shares could decline due to any of these risks, and you may lose all or part of your investment.

There are certain risks relating to an investment in the Shares. These risk can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to the Share Offer; and (iv) risks relating to this prospectus.

RISKS RELATING TO OUR BUSINESS

Our business, results of operations and financial conditions could be adversely affected by the global economic downturn and adverse market and macroeconomic conditions, especially if there is a downturn in our downstream industries.

As our products are generally semi-finished goods sold to our customers which are generally producers of finished products, the demand for our products is therefore largely dependent on the demand from downstream industries. Our products are typically sold to our customers which are manufacturers in, among others, apparel, home furnishing products and outdoor products. Our products are also sold to our other customers which are trading companies in the PRC. These products are ultimately sold to their end customers worldwide. During the Track Record Period, our products were delivered to various geographical locations such as Mexico, South Africa, Chile, Argentina, India, Panama and Columbia. The performance and growth of such industries depend, to a certain extent, on the global economic and market conditions. Unfavourable economic conditions may lead to a drop in business activities and reduce consumer spending in those countries. As such, adverse present and future economic conditions may affect the demand for our products from downstream customers and we may not be able to grow at the pace we anticipated or at all.

In addition, a global economic downturn may adversely affect our customers, suppliers and business partners in obtaining finance and credit for purchases, working capital and capital expenditures for their businesses. This may result in a decline or cancellation of orders from our customers or the inability of our suppliers to fulfil our purchase orders due to production limitations. Furthermore, uncertain market and macroeconomic conditions may cause difficulties

for our customers to project their purchasing plans accurately, which may also adversely affect our production planning.

We incurred continuous net current liabilities as at 31 December 2016 and 2017 and 31 October 2018 and had a high gearing ratio. We may be exposed to liquidity risks and our business, financial conditions and operation results may be materially and adversely affected.

During the Track Record Period, we financed our capital expenditure and business expansion plans through significant amount of short-term borrowings. Our outstanding balance of borrowings from banks and finance lease liabilities, as at 31 December 2016 and 2017 and 31 October 2018 were approximately RMB129.4 million, RMB135.9 million and RMB111.1 million, respectively. Our Group had cash outflows from operating activities of approximately RMB7.5 million for the year ended 31 December 2016. Our gearing ratio was approximately 140.9%, 161.6% and 119.5%, respectively, as at 31 December 2016 and 2017 and 31 October 2018. High gearing ratio will negatively affect our performance and financial position, including but not limited to (i) increase in the finance costs which will reduce our net profit; (ii) increase in the cash outflow for the repayment on the principal and interest of the borrowings; (iii) reduce the cash available for the use of our operation, business planning and capital expenditures; (iv) increase our business risk if there is any adverse change in economy or industry conditions; and (v) increase our exposure to interest rate risk.

We had net current liabilities of approximately RMB44.3 million, RMB57.2 million and RMB39.8 million, respectively, as at 31 December 2016 and 2017 and 31 October 2018. As at 31 October 2018, our Group has available unutilised banking facilities amounted to RMB27.4 million. Our Group has further obtained additional unutilised facilities totaling RMB6.4 million and as at the Latest Practicable Date, our Group has available unutilised banking facilities amounted to RMB33.8 million.

If our current liabilities become due and payable and if we do not have sufficient short-term financial resources to fully repay them, our financial conditions could be adversely affected. Furthermore, in the event that the financial institutions which have been providing existing loan facilities to us do not continue to extend similar or more favourable facilities to us and we fail to obtain alternative loan facilities, our business, financial conditions and operation results could be materially and adversely affected.

We have not entered into long-term agreements with our customers and cannot assure our sales volumes will remain consistent. Therefore, a significant decrease in orders from any of them could adversely affect our business, results of operations and financial conditions.

We have not entered into any long-term agreements with our customers and our sales are generally concluded on an order-by-order basis. As such, our customers may change their suppliers or cease to place order with us at any time and the volume of our customers' purchase orders and our product mix may vary significantly from period to period. We cannot assure you that our customers will continue to place purchase orders with us in the future at the same level

as in the current or prior periods, or at all. If we are unable to replace any lost orders from existing customers with new ones, our business, financial conditions and results of operations may be materially and adversely affected.

We generally do not enter into any long-term agreements with our suppliers which exposes us to uncertainty and potential volatility with respect to adequacy and stability in supply as well as cost of our raw materials.

Chemical fibres are our major raw materials for the production of our polyester fabric. We rely on our suppliers to provide us with stable and adequate supply of chemical fibres for our production operation. Purchases from our five largest suppliers were approximately RMB76.6 million, RMB90.4 million and RMB105.4 million, representing approximately 34.2%, 46.8% and 44.9% of our total purchases for the two years ended 31 December 2017 and the ten months ended 31 October 2018, respectively. Purchases from our largest supplier amounted to approximately RMB28.7 million, RMB40.8 million and RMB36.2 million, representing approximately 12.8%, 21.1% and 15.4% of our total purchases for each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, respectively. For further details about our suppliers of raw materials, please see the section headed "Business – Procurement" in this prospectus.

During the Track Record Period, we in general did not enter into any long-term agreements with our suppliers and will negotiate prices with our suppliers on a case-by-case basis. If any of our key suppliers are unable to satisfy our order requirements or significantly increase the price of raw materials and in particular, chemical fibres, we may experience an interruption, reduction or termination of raw material supplies and will be required to seek alternative suppliers. We cannot assure you that we will be able to find suitable suppliers that can provide raw materials at the same quality and prices or at all. Should this situation arise, we may be exposed to (i) an increase in raw material costs, which we may not be able to pass on to our customers, (ii) a reduction in the quality of our raw materials, or (iii) a shortage of raw materials supply, which may result in an increase in our cost of sales and services or impair the quality of our polyester fabrics. As such, our business, financial condition and results of our operations may be adversely impacted.

Our profitability will be affected by the selling prices of major raw materials and our products and we may not be able to sustain current profitability.

Our profit is sensitive to changes in selling price. Any significant increase in the prices of major raw materials and any significant decline in the selling prices of our products will negatively affect our profitability in the future. Our major raw materials for the manufacture and sales of fabrics are grey fabrics and chemical fibres. Such raw materials are sensitive to the price change as described in the section headed "Industry Overview – Raw material prices of textile fabric manufacturing & printing and dyeing industry". During the Track Record Period, the average unit selling price of our fabrics sold was approximately RMB5.1, RMB4.4, RMB4.5 for each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, respectively. As such, we experienced decrease in the average unit selling price of our fabric

products. Given this, our profitability for the Track Record Period might not give any indication of, and should not be interpreted as guidance for, our total profits in the future. In the event we encounter continuing selling price declines of our major products in the future, we could have difficulties to maintain or manage our business growth.

Any issues with product quality could result in defective or unsatisfactory products, which may lead to loss of customers and sales and may subject us to product liability claims, which could result in significant costs and negatively impact our reputation.

The quality of our polyester fabrics are critical to the success of our business. The quality of our products depends on a number of factors, including (i) quality of the sourced raw materials; (ii) mechanical errors in our production process; (iii) ineffectiveness of our production control and quality control system; and (iv) ability of our employees to adhere to our quality control policies and guidelines. Our polyester fabrics are required to meet certain quality requirements set by our Group as well as the specifications of our customers. Certain of our customers have stringent requirements on product quality. We cannot assure you that we can fully eliminate all defects in our products and it is possible that our products may not conform with our customers' specifications.

Failure to detect sub-standard products may lead to complaints from customers who may cease to place orders from us. Serious quality issues in our products could result in product recall or other adverse consequences which could materially affect our business reputation, financial conditions and results of operations.

In addition, safety and quality standards, laws and regulations are subject to modification and amendments. We cannot assure you that existing or new polyester fabrics produced by us presently or in the future can meet or continue to meet the required safety and quality requirements. Should we fail to meet such requirements, we may be unable to serve our customers who may then switch suppliers causing our business reputation and financial performance to deteriorate.

Our financial performance may be affected by fluctuations in the price of raw materials and we may not be able to pass on the increase in raw materials cost to our customers.

We procure grey fabrics, chemical fibres and dyes used in the production of our polyester fabrics and our provision of printing and dyeing services directly from our raw materials suppliers. For the two years ended 31 December 2017 and the ten months ended 31 October 2018, the total costs in raw materials amounted to approximately RMB166.1 million, RMB136.8 million and RMB159.7 million respectively, which accounted for approximately 80.1%, 71.2% and 72.4% respectively of our total cost of sales and services for the same periods. Prices of our major raw materials are subject to factors beyond our control such as market demand, global economic conditions and government policies. Please see the section headed "Industry Overview – Raw material prices of textile fabric manufacturing & printing and dyeing industry" in this prospectus for further information on the fluctuation of our major raw materials price during the Track Record Period. For the sensitivity analysis in relation to changes in raw materials costs,

please see the section headed "Financial Information – Description of selected items in consolidated statements of profit or loss and total comprehensive income – Cost of sales and services" in this prospectus. As at the Latest Practicable Date, we did not have any hedging arrangements against fluctuations in prices of raw materials. If we cannot pass on the increase in the costs of raw materials to our customers, our business, financial conditions and operation results may be materially and adversely affected.

Our production facilities are subject to environmental laws in the PRC and any failure to comply with environmental regulations would expose us to penalties, fines, suspensions or actions in other forms.

Our operations generate pollutants and wastes in our operation and various stages of the production process, including but not limited to the exhaust gas and effluents in the dyeing process. In this regard, our operations and production processes are subject to certain environmental laws and regulations in the PRC. For further details, please refer to the section headed "Regulatory Overview" in this prospectus. Any failure to meet the standards as required under local laws and regulations could subject us to fines, warnings and/or orders from relevant government authorities to rectify the problem within a specified period of time. In order to rectify such situations, we may be required to suspend our production temporarily or even permanently in cases of serious non-compliance. Should this situation arise, our business reputation, financial conditions and results of operations may be materially and adversely affected.

In addition, environmental laws and regulations may be amended from time to time as required by the PRC Government and is not within our control. We cannot assure you that our existing environmental policies and equipment will be adequate to meet future environmental policies and requirements and we may be required to incur additional costs to comply with such future requirements, which may be more stringent than present laws and regulations. In such situation, our capital expenditure and cost of production will increase unexpectedly.

Our operations depend on reliable and functioning machinery and any machinery breakdown may adversely affect our ability to meet customer orders.

Our operations are capital intensive and we are prone to machinery breakdowns and amid regular maintenance. As at 31 October 2018, majority of our major production machinery and equipment in our Huzhou Production Facilities are over five years old, any disruption or breakdown of which may limit or restrict our production output and may potentially require us to compensate our customers for failure to deliver our products in accordance with the customer's requirements. This may adversely affect our business relationship with our customers, especially when a portion of which are also manufacturers that rely on our products to manufacture finished goods to meet their order commitments with their own customers. Significant expenses may be incurred to repair or replace malfunctioning machines too.

Any disruption of adequate and timely supply of water, electricity and other critical supplies and equipment may also adversely affect our ability to meet customer orders.

Our Huzhou Production Facilities are also subject to operational risks and disruptions such as interruptions of utilities supplies including water and electricity, labour disputes and industrial accidents. We may not be able to deliver our products in accordance with the customer's requirements if any such disruptions occur. This in turn may potentially require us to compensate our customers and adversely affect our business relationship with our customers. In addition, any such disruptions may require us to incur significant expenses to repair any damage to our Huzhou Production Facilities and adversely affected our business performance and financial results.

We are exposed to risks of obsolete and slow-moving inventory which may adversely impact our cash flow and liquidity.

Our inventory consists of raw materials, work in progress and finished goods. As at 31 December 2016 and 2017 and 31 October 2018, the balances of our inventories amounted to approximately RMB69.8 million, RMB78.0 million and RMB73.5 million, accounting for approximately 51.5%, 70.8%, and 65.2% of our total current assets as at the corresponding dates, respectively. Our average inventory turnover days were 105 days, 140 days and 104 days for the two years ended 31 December 2017 and for the ten months ended 31 October 2018, respectively. For details, please see the section headed "Financial Information – Inventories" in this prospectus. If we cannot manage our inventory level effectively or if our actual output is significantly more than our expected sales volume, we may not achieve an optimal level of inventory resulting in overstocking of raw materials, work in progress or finished goods, and we may need to either sell off such inventory at a lower price or write off such inventory.

Any labour shortages, increased labour cost or other factors affecting our labour force may adversely affect our business, profitability and reputation.

For the two years ended 31 December 2017 and the ten months ended 31 October 2018, our total direct labour staff cost for our production in the cost of sales and services amounted to approximately RMB7.0 million, RMB7.8 million and RMB7.4 million, respectively. To sustain the growth of our business, we will need to retain our workforce of experienced management, skilled labour and other employees to maintain the operating efficiency of our Huzhou Production Facilities. In the event of labour shortages, we may have difficulties in recruiting or retaining employees or may face increasing labour costs. Given the recent economic growth in the PRC, competition for qualified personnel is substantial and labour costs have been increasing generally, and we cannot assure you that we can retain and attract sufficient qualified employees on commercially reasonable terms, or at all. Any failure to attract qualified personnel at reasonable cost and in a timely manner could reduce our competitive advantages relative to our competitors, undermining our ability to expand our growth in revenues and profits. We cannot assure you that labour disputes, work stoppages or strikes will not arise in the future. Increases in our labour costs and future disputes with our workers could adversely affect our business, financial conditions or operation results.

The preferential tax treatment we currently enjoy is subject to review and approval by the PRC tax authorities every three years. If the preferential tax rate reduces or if we no longer enjoy the preferential tax treatment in the future, our results of operations and profitability will be adversely affected.

The current standard enterprise income tax rate in the PRC is 25%. For the two years ended 31 December 2017 and the ten months ended 31 October 2018, our effective tax rate amounted to approximately 18.5%, 13.4% and 9.4%, respectively. On 27 October 2014, we were recognised as a High and New Technology Enterprise* (高新技術企業) which has been granted tax concessions by the local tax bureau and is entitled to the PRC enterprise income tax at concessionary rate of 15% for the year starting from 1 January 2014 to 31 December 2016. The certificate is renewed on 13 November 2017 with an extension on preferential period of a term of further three years from 1 January 2017 to 31 December 2019. The certificate is subject to review and approval by the PRC tax authorities every three years. There is, however, no assurance that we will continuously be awarded the status as a High and New Technology Enterprise* (高新技術企業) or enjoy the preferential tax rate of 15% in the future.

Government subsidies and gain on disposal of an associate are non-recurring in nature.

During the Track Record Period, we recorded government subsidies of approximately RMB2.6 million, RMB2.1 million and RMB4.2 million for the two years ended 31 December 2017 and the ten months ended 31 October 2018 as part of our other income. These government subsidies represented the subsidies received from local governments in connection with the enterprise development support, innovation capabilities incentives and various tax refund, which were in general discretionary with varying amounts depending on each of the subsidy programmes. We cannot guarantee that we will be able to secure the same amount (if any) of such subsidies from the local governments in the future.

Furthermore, our Group recognised a significant and non-recurring gain on disposal of an associate of approximately RMB23.0 million for the ten months ended 31 October 2018 in respect of its disposal of equity interest of Changxing Hengli Financing to an Independent Third Party for a consideration of approximately RMB35.0 million on 30 March 2018. Such gain is one-off and we cannot assure you that we can obtain similar gain in the future.

We are dependent on our key management personnel.

Our future business performance and implementation of our expansion plans are dependent, to a substantial extent, on the continuous contributions of our executive Directors and senior management. Our Group is led by Mr. Dai, the chairman of our Board, our executive Director and chief executive officer of our Group, and Ms. Song, an executive Director, who have over 25 and 20 years of experience in the textile manufacturing, printing and dyeing industry, respectively. For further details regarding the experience of our management team, please refer to the section headed "Directors and Senior Management" in this prospectus. We expect that our executive Directors and senior management team will continue to play an important role in the future growth and success of our business. However, there is no assurance that we will be able

to continue to attract and retain the service of our business leaders. If any of our executive Directors or senior management terminates his or her service agreement with us and we are unable to find a suitable replacement in a timely manner, or at all, our business operations and implementation of our future plans may be adversely affected.

We are exposed to credit risks with respect to the settlement by our customers. Any significant delay in payment or defaults by our customers may materially and adversely affect our financial conditions and results of operations.

We are subject to the credit risks of our customers and our profitability and cash flow are dependent on timely settlement of payments by our customers for the products or services we provide to them. Our average trade receivables turnover days were 44 days, 47 days and 26 days for the two years ended 31 December 2017 and for the ten months ended 31 October 2018, respectively. During the Track Record Period, allowance for doubtful debts/ECL amounted to approximately RMB2.0 million, RMB0.1 million and RMB0.6 million, respectively. We cannot assure you that we will be able to collect all or any of our trade receivables within the credit period that we granted to our customers. If any of our customers face unexpected situations, including but not limited to, financial difficulties caused by general economic downturn or fiscal constraints, we may not be able to receive payment of uncollected debts in full, or at all, from such customers and we may need to make provisions for trade receivables.

We may be subject to liability in connection with industrial accidents at our Huzhou Production Facilities.

Our production processes are capital intensive, using machinery and equipment that may be prone to industrial accidents, potentially causing physical injuries or even fatalities of our workers. There is no assurance that industrial accidents, whether caused by malfunctioning or misuse of equipment or machinery, will not occur in the future. In such situations, we may be liable to claims brought against us by injured workers or their families in cases of fatalities. We may also be subject to fines or penalties for violations of applicable safety laws and regulations by government authorities as well as suspension of our operations for investigation after such incidents. As a result, we may also be required by local government authorities to amend and implement new safety requirements to prevent the reoccurrence of such incidents in the future.

Our research and development of new types of polyester fabrics may not be successful and our newly-developed products may fail to achieve our desired results.

The constant development of new functional polyester fabrics is crucial to our ability to attract new customers, adjust to changes in market demands and trends and to enhance our competitiveness in the future. Our laboratory is located in our Huzhou Production Facilities. Our research and development expenses which include staff costs and research and development project expenses, amounted to approximately RMB6.9 million, RMB6.4 million and RMB8.3 million for the two years ended 31 December 2017 and the ten months ended 31 October 2018, respectively, representing approximately 2.8%, 2.7% and 3.0% of our total revenue respectively for the same periods. However, we cannot assure you that we will be successful in developing

products or techniques for producing new products with the desired features or market demand, or that such research and development plans may be completed within our desired time frame at reasonable costs. In addition, by the time a new product or technique is developed, the market demand for such new product or technique may have already changed or superseded and our new product or technique may not be accepted by the market. We may fail to achieve the expected or successful results in our research and development efforts.

We depend on subcontractors to manufacture a notable portion of our products.

During the Track Record Period, we engaged Independent Third Parties subcontractors to carry out part of our production processes such as knurling, calendering, coating and trimming depending on our production schedule. For further details on the subcontracting arrangements of our Group, please see section headed "Business – Production Process – Subcontracting arrangements" in this prospectus. For the two years ended 31 December 2017 and the ten months ended 31 October 2018, the subcontracting fees amounted to approximately RMB13.1 million, RMB12.8 million and RMB17.2 million, respectively. However, there is no assurance that these subcontractors will continue their business relationships with us nor the subcontractors will continue to be able to provide processing services to us at our desired quality standards or in a timely manner or on commercially acceptable terms. In the event of termination of the business relationships with these subcontractors or if there is any change to the current arrangement, our Group may not be able to locate comparable alternatives which provide processing services complying our quality requirement and delivery schedule or on commercially acceptable terms.

Our plan to expand our production capacity could contribute to the fluctuations of our financial results as the expansion may not achieve timely profitability as anticipated, or at all.

We plan to expand our production capacity by constructing a new factory and acquiring additional production machines. For further details, please refer to the sections headed "Business – Business strategies" and "Future Plans and Use of Proceeds" in this prospectus. Other than financing difficulties, our plan to expand the production capacity may be adversely impacted by various factors, many of which are beyond our control, including, but not limited to, (i) delay in delivery of major machinery and equipment or failure of machinery and equipment to perform according to specifications or our expectations; (ii) the failure of or delay in obtaining or renewing the required licences, permits and approvals for our growth and expansion plans, if any; (iii) unforeseen adversities that could substantially delay our planned expansion, such as adverse weather conditions and machinery and equipment malfunctions; (iv) our new products having weaker market reception than we expected; and (v) difficulty in recruiting sufficient qualified workers. In addition, the operating results generated as a result of the expansion may not be comparable to the operating results currently generated and may even operate at a loss. We cannot assure you that our expansion will achieve the level of profitability as expected, if at all.

We may not be able to manage our growth and expansion effectively in the future.

Our future growth may depend on establishing new production facilities and expanding our production capacity, introducing new products and expanding our customer base. Our ability to achieve growth will be subject to a range of factors, including (i) adapting to changing industry and market trends; (ii) exercising effective quality control and maintaining high safety standards; (iii) strengthening our relationships with existing customers and attract new ones to match our increased production capacity; (iv) hiring and training qualified personnel; (v) controlling our costs of operations; (vi) securing management and financial resources; (vii) executing our operational, financial and management controls systems in an efficient and effective manner; (viii) managing our various suppliers and leveraging our bulk purchasing power; and (ix) maintaining our competitive strengths over our competitors.

Additionally, our expansion plans and business growth could strain our managerial, operational and financial resources. Our ability to manage future growth will depend on our ability to continue to implement and improve operational, financial and management systems on a timely basis and to expand, train, motivate and manage our workforce. We cannot assure you that our human resources and various operation systems will be adequate to support our future growth. In addition, as we expand our operations, we may encounter regulatory, cultural and other difficulties that may also increase our costs of operations.

We may need additional funding to meet future business requirements and plans, which we may not be able to obtain on acceptable terms, or at all.

Our Group intend to fund majority of our expansion plans by net proceeds from the Share Offer. For details of our expansion plans, please see the sections headed "Business – Business strategies" and "Future Plans and Use of Proceeds" in this prospectus. However, we may need additional capital to fund our capital expenditure associated with our expansion plans, which our expansion costs could be affected by many factors, such as changes in general economy and industry performance. There is no assurance that we will generate sufficient cash flow from our operating activities for our intended expansion plans. Where we do not have sufficient operating cash flow, we will need to obtain alternative financing. There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including (i) conditions in the capital and financial markets in which we may seek to raise funds; (ii) our future cash flows, financial conditions and results of operations; and (iii) economic, political and other conditions in Hong Kong, the PRC and the rest of the world.

The ability to obtain additional funding affects implementation of our planned growth strategy. If we raise additional funding, our interest and debt repayment obligations will increase. The terms of any future debt facilities may also impose restrictive covenants that may restrict our business operations or result in dilution of shareholding in the case of equity financing.

Our future capital expenditure for the purchase of new machinery result in an increase in our depreciation expenses.

As part of our business strategies to expand our production capacity, we plan to purchase certain new production machinery. The total investment costs are estimated to be approximately RMB27.5 million resulting in an estimated increase in annual depreciation expenses of approximately RMB2.8 million. For further details, please refer to the sections headed "Business – Business strategies" and "Future Plans and Use of Proceeds" in this prospectus. As soon as they are put into operation, they will result in additional annual deprecation charges. The increase in depreciation will adversely affect our financial performance and operating results.

We were previously involved in bill financing transactions that were not fully in compliance with the Negotiable Instruments Law of the PRC and we may be subject to penalties.

From 1 January 2016 to 1 May 2017, our PRC subsidiaries, Huzhou Narnia and Changxing Seashore, entered into certain non-compliant bill financing arrangements with Independent Third Parties. During the Track Record Period, we, (1) purchased from two Independent Third Parties bank acceptance bills which were without underlying transactions to settle genuine purchase payment; and (2) engaged in inter-lending of bank acceptance bills with two of our Independent Third Party suppliers whereby bank acceptance bills (with genuine transactions) were borrowed from one supplier for settling payments to another supplier. For detailed information, please refer to the section headed "Business – Legal proceedings and compliance – Non-compliant bill financing" in this prospectus. There is no assurance that these non-compliance incidents will not affect the credibility of our Group in the PRC commercial banks, nor future approvals of financing activities by these banks. We also cannot assure you that the relevant regulatory authorities will not impose penalties and/or fines on Huzhou Narnia and Changxing Seashore retrospectively for the previous non-compliant bill financing transactions. Any penalties and/or fines may adversely affect our business, financial conditions and results of operations.

We may not have adequate insurance coverage and payments for any uninsured liabilities and loss may adversely affect our financial conditions, etc..

We only maintain limited insurance coverage. As a result, we may have to pay for any uninsured financial or other losses, damages and liabilities, litigations or business disruption out of our own resources. If our business operations were disrupted or interrupted for a substantial period of time, we could incur costs and losses that could materially and adversely affect our business, financial conditions and operation results.

Our inability to adequately protect our intellectual property rights and any infringement may have a material adverse effect on our business operations.

The success of our business depends on our ability to protect our know-how and our intellectual property rights. As at the Latest Practicable Date, we were the registered owner of four invention patents, nine utility model patents and seven of our patent registration applications in the PRC were under process. However, we cannot assure you that our efforts to

protect our intellectual property rights are sufficient, or that our patents applications will be granted, or that our intellectual property rights will not be misappropriated or otherwise infringed by any third parties in the future in any or all jurisdictions in which we operate our business. In addition, the intellectual property laws in the PRC are still developing and may not provide adequate protection on intellectual property. Any significant leakage of our confidential information or infringement of the proprietary technologies and processes used in our business could weaken our competitive position and have a material and adverse effect on our business and operation results. Furthermore, we cannot assure you that we will not be subject to infringement claims against us from any third parties. Should such claims be brought against us, we may incur significant legal costs to defend our position and/or be required to pay substantial damages by a judicial order or through mediation. This may materially and adversely affect our business reputation, financial conditions and results of operations.

RISKS RELATING TO OUR INDUSTRY

We operate in a highly competitive environment and we may not be able to sustain our current market position and our failure to timely respond to market preference and trend may adversely affect our financial conditions and operations.

We are operating in a highly competitive industry facing competition from competitors. Some of our competitors have greater access to capital and substantially greater production, intellectual property, marketing and other resources than we do. Some of these competitors may purchase the highly automated equipment as ours to produce polyester fabrics or provide printing and dyeing services which have comparable product attributes and qualities as ours. We cannot assure you that our strategies will remain competitive or that they will continue to be successful in the future.

Our business operations may be materially and adversely affected by any change in the political, economic and social policies and conditions of the PRC.

Our business and results of operations are subject to the political, economic and social policies and conditions of the PRC, as our principal business operation are conducted in the PRC. The economy of the PRC differs from the economics of most developed countries in many respects, including, among others, the degree of government involvement, the level of development, the growth rate, the control of foreign exchange and the resource allocation. Given that the economy of the PRC has been undergoing a transition from a planned economy to a market-oriented economy, the PRC Government has adopted various measures emphasising the utilisation of market forces for economic reforms, the reduction of state ownership of productive assets, and the establishment of sound corporate governance in business enterprises. There is no assurance that the PRC Government will not introduce more restrictive or onerous policies in the future. Any change in the political, economic and social policies and conditions of the PRC may bring uncertainty to our business operations and may materially and adversely affect our prospects and results of operations.

The legal system in the PRC is not fully developed and has inherent uncertainties that could limit the legal protections available to our Group.

Our business and operations are primarily conducted in the PRC and our PRC subsidiaries are governed by PRC laws, rules and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC may not be as comprehensive or developed as that of other jurisdictions. Prior court decisions may be cited for reference but do not have binding precedential effect and have little weight as precedents. Accordingly, the outcome of dispute resolutions may not be consistent or predictable. Newly-enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC and there is much uncertainty in their application, interpretation and enforcement. As a result, we may not be aware of our violations of certain policies or rules in a timely manner.

Fluctuations in consumer spending caused by changes in macroeconomic conditions or industry trends may significantly affect our business operations, financial conditions, results of operations and prospects.

Our customers' purchasing decision and quantity of orders that they place with us are heavily influenced by the likely spending habits of their consumers, which may be influenced by macroeconomic conditions. If demand from the end consumers is low, companies operating in the textile industry may experience significant reduction in purchase orders and greater pricing pressure from our customers. Furthermore, we cannot accurately predict the demand for a particular fabrics which may change from season to season and from year to year due to changes in industry trends. If aforesaid occur or we are unable to predict, identify and respond promptly to such changes, there would be an adverse effect on our business operations, financial conditions, results of operations and prospects.

Rules and regulations in the PRC on investment and loans by offshore holding companies to PRC subsidiaries may delay or prevent us from using the net proceeds from the Share Offer to make additional capital contributions or loans to our PRC subsidiaries, which could harm our liquidity and our ability to expand our business.

We, as an offshore holding company, may make additional capital contributions or loans to our PRC subsidiaries, including from the net proceeds of the Share Offer. Any loans to our PRC subsidiaries is subject to PRC laws and regulations. For example, loans from us to our wholly-owned PRC subsidiaries, which are foreign-invested enterprises, to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local branches. We may also decide to finance our wholly-owned PRC subsidiaries by means of capital contributions. These capital contributions must be approved by or filed with MOFCOM or its local branches. There is no assurance that, in relation to all future loans or capital contributions by us to our PRC subsidiaries, we will be able to complete all required government registrations or obtain all necessary approvals in a timely manner or at all. If we fail to complete such registrations or obtain such approvals, our ability to use the net proceeds of the Share Offer may be affected, which may in turn materially and adversely affect our liquidity and our ability to fund and expand our business.

Pursuant to the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprise SAFE Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "**SAFE Circular 19**"), which became effective on 1 June 2015, foreign-invested enterprises shall be allowed to settle foreign exchange capital on a discretionary basis. Furthermore, where foreign-invested enterprises are engaged in equity investment in the PRC, they shall comply with the regulations on reinvestment in the PRC. While SAFE Circular 19 unlocks the restrictions on foreign exchange capital settlement, it is uncertain how the PRC authorities will interpret, apply and enforce SAFE Circular 19 and whether SAFE Circular 19 will be effective in unlocking the restrictions on foreign exchange capital settlement.

The PRC Government's control over currency conversion may affect the value of our Shares and limit our ability to utilise our cash effectively.

Majority of our revenue is denominated in Renminbi. The PRC Government has imposed controls on the conversion between Renminbi and foreign currencies and, in certain cases, the remittance of foreign currencies into and out of the PRC. Pursuant to the existing PRC foreign exchange regulations, payments of current account items, such as dividend distributions and interest payments, can be made in foreign currencies without prior approval from the SAFE, but subject to certain procedural requirements. However, approval from or registration with the SAFE is required where Renminbi is to be converted into other foreign currencies and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. We cannot assure you that the PRC regulatory authorities will not impose restrictions on foreign exchange transactions for current account items in the future. Any shortage in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividend or make other payments to their holding companies or our Company, or otherwise satisfy their obligations that are required to be settled in foreign currency. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividend in foreign currencies to our Shareholders. In addition, since some of our future cash flow derived from our operations will be denominated in Renminbi, any existing and future restriction on currency exchange may limit our ability to purchase or obtain goods and services in countries outside of the PRC, or otherwise limit or impair our business activities that are conducted in foreign currencies.

Our Company is a holding company that relies on dividend payments from our subsidiaries, funding and payment of dividends from our PRC subsidiaries are subject to restrictions under PRC laws and PRC withholding tax.

PRC laws require dividends to be paid out of net profit calculated according to PRC accounting principles, which, in many aspects, differ from the generally accepted accounting principles in other jurisdictions. Foreign-invested enterprises, such as our PRC subsidiaries, are also required to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. In addition, such dividends are also subject to PRC

withholding tax. Our Company is a holding company registered in the Cayman Islands and substantially all of our business and operations are conducted through our PRC subsidiaries. The availability of funds to pay distributions to Shareholders depends on dividends received from these subsidiaries. If our PRC subsidiaries incur any debts or losses or otherwise there are insufficient retained after-tax profits after deducting statutory reserves, the amount of dividends that our PRC subsidiaries can declare will be limited and as a result, our ability to pay dividends and other distributions to Shareholders will be restricted.

Dividend payable by us to our non-PRC Shareholders or gain realised on the transfer of our Shares may be subject to PRC income tax under PRC tax laws.

Pursuant to the EIT Law and the EIT Implementation Rules, subject to any applicable tax treaty or arrangement between the PRC and your jurisdiction of residence that provides a different income tax arrangement, the payment of dividend by a PRC resident enterprise to investors that are non-PRC resident enterprises (including enterprises that do not have an establishment or place of business in the PRC and enterprises that have an establishment or place of business but their income is not effectively connected with the establishment or place of business) or any gain realised on the transfer of shares by such investors is generally subject to PRC income tax at a rate of 10.0%, to the extent such dividend has its source in the PRC or such gain is regarded as income derived from sources within the PRC. Under the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) and its implementation rules (《中華人民共和國個人所得稅法實施條例》), dividend from sources within the PRC paid to foreign individual investors who are not PRC residents and gains from PRC sources realised by such investors on the transfer of shares are generally subject to a PRC income tax at a rate of 20.0%, subject to any reduction or exemption set out in applicable tax treaties and PRC laws.

It is uncertain whether we will be considered as a PRC resident enterprise. If we are regarded as a PRC resident enterprise, dividend payable by us with respect to our Shares, or any gain realised from the transfer of our Shares, may be treated as income derived from sources within the PRC and may be subject to PRC income tax, subject to the interpretation, application and enforcement of the EIT Law and the EIT Implementation Rules by the relevant tax authorities. If we are required under the EIT Law to withhold PRC income tax on dividend payable to our non-resident Shareholders, or if you are required to pay PRC income tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected.

Dividend payable by our PRC subsidiaries to our Hong Kong subsidiaries may not qualify for the reduced PRC withholding tax rate.

Pursuant to the EIT Law and the EIT Implementation Rules, the payment of dividend by a PRC resident enterprise to investors that are non-resident enterprises is subject to PRC withholding tax at a rate of 10.0%. Under the Agreement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), the withholding tax rate will be reduced to 5.0% if the PRC

enterprise distributing dividend is owned as to 25.0% or more by a Hong Kong resident enterprise. However, according to the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行税收協定股息條款有關問題的通知》) issued by the State Administration of Taxation on 20 February 2009, if the main purpose of a transaction or an arrangement is to obtain preferential tax treatment, the PRC tax authorities will have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that we will enjoy the 5.0% reduced withholding tax rate in relation to dividend payable by our PRC subsidiaries to our Hong Kong subsidiaries.

RISKS RELATING TO THE SHARE OFFER

There is no existing public market for our Shares and their liquidity and market price may fluctuate.

Prior to the Share Offer, there has not been a public market for our Shares. We have applied for the listing of and dealing in our Shares on the Stock Exchange. However, even if approved, we cannot assure you that an active and liquid public trading market for our Shares will develop following the Share Offer, or, if it does develop, it will be sustained. The financial market in Hong Kong and other countries have in the past experienced significant price and volume fluctuations. Volatility in the price of our Shares may be caused by various factors, some of which are outside our control and may be unrelated or disproportionate to our operating results.

You may experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

If the final Offer Price of our Shares is higher than the net tangible assets of our Group attributable to owners of our Group per Share immediately prior to the Share Offer, subscribers of our Offer Shares will experience an immediate dilution in the pro forma adjusted consolidated net tangible assets of our Group. In order to expand our business, we may offer and issue additional Shares in the future. Our Shareholders may experience further dilution in the net tangible book value per Share if we issue additional Shares at a price lower than the net tangible book value per Share at the time of their issue.

Our Controlling Shareholders, may exert substantial influence over our operation and may not act in the best interests of our public Shareholders.

Immediately following the Share Offer, our Controlling Shareholders will own 59.11% of our issued share capital, without taking into account any shares that may be allotted and issued upon the exercise of the Offer Size Adjustment Options and the options that may be granted under the Share Option Scheme. Therefore, it will be able to exercise significant influence over all matters requiring Shareholders' approval, including the appointment of Directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder actions or approvals requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership also may have the effect

of delaying, preventing or deterring transactions or matters that would otherwise benefit our Shareholders.

Future sales or issuances or perceived sales or issuances of our Shares could have a material adverse effect on the prevailing market price of our Shares and our ability to raise additional capital.

Based on our offer structure, there will be 800,000,000 Shares in issue immediately upon Listing, without taking into account any Shares that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme. Our Controlling Shareholder agreed that any Shares held by them will be subject to a lock-up after the Listing. However, after the expiry of this lock-up period, subject to certain conditions, our Controlling Shareholders are free to dispose of its Shares at its own discretion and the sale or disposal of any substantial amounts of our Shares in the public market or the perception that such sales could occur, could have a material and adverse effect on the market price of our Shares. This may also consequently affect our future ability to raise capital through offering of our Shares.

You should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in the press articles, other media and/or research analyst reports regarding us, our business, our industry and the Share Offer.

There may be subsequent to the date of this prospectus but prior to the completion of the Share Offer, press, media, and/or research analyst coverage regarding us, our business, our industry and the Share Offer. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our Shares and we make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them.

You may experience difficulties in protecting your interests because we are a Cayman Islands company and the laws of the Cayman Islands for minority shareholders protection may be different from those under the laws of Hong Kong and other jurisdictions.

The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under the laws of the Cayman Islands are to a large extent governed by the Articles of Association, the Companies Law and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those in Hong Kong and other jurisdictions. Such differences mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. For further details, please see Appendix IV to this prospectus.

RISKS RELATING TO THIS PROSPECTUS

We cannot guarantee the accuracy of certain facts and statistics contained in this prospectus.

Certain facts and statistics in this prospectus have been derived from various official government and other publications generally believed to be reliable. Such information has not been independently verified by us or any of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in the Share Offer and no representation is given as to its accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practises, the facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements that are "forward-looking" and uses forward looking terminology such as "anticipate", "estimate", "believe", "expect", "may", "plan", "consider", "should", "would" and "will". These statements include, among other things, the discussion of our growth strategy and the expectations of our future operations, liquidity and capital resources. Subscribers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our Company's plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the GEM Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information.

WAIVER AND EXEMPTION IN RESPECT OF FINANCIAL STATEMENTS IN THIS PROSPECTUS

According to Rules 7.03(1) and 11.10 of the GEM Listing Rules, the Accountants' Report as set out in Appendix I to this prospectus must include the consolidated results of our Group in respect of the two financial years ended 31 December 2018 (being the two financial years immediately preceding the issue of this prospectus) or such shorter period as may be acceptable to the Stock Exchange.

Similarly, according to section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company, as a company incorporated outside Hong Kong and proposing to offer its shares for subscription, must state the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and set out the reports specified in Part II of that schedule in its prospectus.

According to paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as modified by section 5(3) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong)), our Company is required to include in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of our Company for each of the two years ended 31 December 2018 and include an explanation of the method used for the computation of such income or turnover and a reasonable breakdown between the more important trading activities.

According to paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as modified by section 5(3) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong)), our Company is required to include in this prospectus a report by the auditors of our Company in respect of the profits and losses and assets and liabilities of our Company for each of the two years ended 31 December 2018.

The Accountants' Report for the two years ended 31 December 2017 and the ten months ended 31 October 2018 is set out in Appendix I to this prospectus. However, strict compliance with paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as modified by section 5(3) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong)) and Rules 7.03(1) and 11.10 of the GEM Listing Rules would be unduly burdensome and the exemption would not prejudice the interest of the investing public given the following:

(i) there would not be sufficient time for our Group and the reporting accountants to complete the audit work on the full financial information for the year ended 31 December 2018 for inclusion in this prospectus, which shall be issued on or before 13

February 2019. If the financial information is required to be audited up to 31 December 2018, our Company and the reporting accountants would have to undertake a considerable amount of work to prepare, update and finalise the accountants' report and this prospectus and the relevant sections of this prospectus will need to be updated to cover such additional period;

(ii) our Directors and the Sole Sponsor are of the view that (a) the accountants' report covering the two years ended 31 December 2017 and the ten months ended 31 October 2018, together with the profit estimate of our Group for the year ended 31 December 2018 as set out in Appendix III to this prospectus already provides potential investors with adequate and reasonably up-to-date information in the circumstances to form a view on the track record and earnings trend of our Group; and (b) all information that is necessary for the potential investors to make an informed assessment of the activities, assets and liabilities, financial position, management and profitability of our Company has been included in this prospectus; and

(iii) our Directors and the Sole Sponsor confirmed that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our Group's financial and trading positions or prospects since 31 October 2018 and there is no event since 31 October 2018 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus, the profit estimate of our Group for the year ended 31 December 2018 as included in Appendix III to this prospectus and the section headed "Financial Information" in this prospectus and other parts of this prospectus.

In such circumstances, an application has been made to the Stock Exchange for, and the Stock Exchange has granted to our Company, a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules, on the conditions that:

(i) the proposed listing of the Shares will take place on or before 28 February 2019;

(ii) the SFC granting a certificate of exemption from strict compliance with requirements under section 342(1) in respect of the requirements under paragraphs 27 and 31 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance subject to such conditions as the SFC thinks fit in granting of such certificate of exemption;

(iii) a profit estimate for the year ended 31 December 2018 in compliance with Rules 14.29 to 14.31 of the GEM Listing Rules shall be included in this prospectus; and

(iv) a Directors' statement that there is no material adverse change to the financial and trading positions or prospects of our Group with specific reference to the trading results since 31 October 2018 and up to the date of this prospectus shall be included in this prospectus.

An application has also been made to the SFC for a certificate of exemption from strict compliance with section 342(1) in respect of the requirements under paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to the inclusion of the accountants' report for the full year ended 31 December 2018 in this prospectus. A certificate of exemption has been granted by the SFC under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that:

(i) this prospectus will be issued on or before 13 February 2019, and that the proposed listing of the Shares will take place on or before 28 February 2019, that is two months after the latest financial year end; and

(ii) the particulars of the exemption shall be set out in this prospectus.

In accordance with Guidance Letter HKEx-GL25-11, a profit estimate of our Group for the year ended 31 December 2018 which complies with Rules 14.29 to 14.31 of the GEM Listing Rules has been set out in Appendix III to this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purposes of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

1. the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;

2. there are no other matters the omission of which would make any statement herein or in this prospectus misleading; and

3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

OFFER SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Share Offer and the Listing of the Offer Shares, which is sponsored by the Sole Sponsor. The Public Offer Shares are fully underwritten by the Public Offer Underwriters under the terms and conditions of the Public Offer Underwriting Agreement. The Placing Shares will be fully underwritten by the Placing Underwriters pursuant to the Placing Underwriting Agreement subject to the Offer Price being fixed by Price Determination Agreement. For further information about the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

INFORMATION ON THE SHARE OFFER

The Offer Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information, or to make any representation, not contained in this prospectus. Any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents, representatives or any other person or party involved in the Share Offer.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Offer Shares will be required to confirm or by his/her/its acquisition of the Offer Shares will be deemed to confirm that he/she/it is aware of the restrictions on the offer of the Offer Shares described in this prospectus. Save as mentioned

above, no action has been taken in any jurisdiction other than Hong Kong to permit an offer or the general distribution of this prospectus. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in relation to the Share Offer in any jurisdiction or, in any circumstance in which such an offer or invitation is not authorised, or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under any applicable laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities as an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the United States.

No invitation may be directly or indirectly by or on behalf of our Company to the public in the Cayman Islands to subscribe for or acquire any of the Offer Shares. The Share Offer is made solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained herein must not relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers, and any of their respective directors or affiliates of any of them or any other person and party involved in the Share Offer. The contents as shown on our Company's website at **www.narnia.hk** do not form part of this prospectus.

Prospective investors for the Offer Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe the applicable laws, rules and regulations of any relevant jurisdictions. Prospective investors for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus. No part of the Share or loan capital of our Company is listed or dealt in on any other stock exchange and no such listing or permission of dealing is being or is proposed to be sought. At present, our Company is not seeking or proposing to seek listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the Share Offer or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

The Shares are freely transferable. Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees. A total of 200,000,000 Offer Shares for subscription, which represent 25% of our Company's enlarged issued share capital will be in the hands of the public immediately following the completion of the Share Offer and the Capitalisation Issue and upon Listing (assuming the options that may be granted under the Offer Size Adjustment Option and the Share Option Scheme are not exercised).

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at all times after the Listing, our Company must maintain the "minimum prescribed percentage" of 25% or such applicable percentage of the issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

PROFESSIONAL TAX ADVICE RECOMMENDED

If investors are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, dealings in, or exercise of any rights in relation to the Shares, they should consult an expert. It is emphasised that none of our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents, representatives or any other person or party involved in the Share Offer accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

All the Offer Shares will be registered on our Company's branch register of members to be maintained in Hong Kong by our Company's branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company's principal register of members will be maintained in the Cayman Islands by our Company's principal share registrar and transfer office in the Cayman Islands. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on GEM, unless the Stock Exchange otherwise agrees.

Dealings in the Shares registered on our Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the principal register of members of our Company maintained in the Cayman Islands will not be subject to the Cayman Islands stamp duty except where our Company holds interests in land in the Cayman Islands.

Unless determined otherwise by our Company, dividends in respect of the Shares will be paid to our Shareholders by ordinary post, at our Shareholders's risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named therein in accordance with the Articles.

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangements and how such arrangements will affect their rights, interests and liabilities, they should seek the advice of their stockbroker or other professional advisers.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain RMB and US dollars amounts into Hong Kong dollars at a specified rate. Unless we indicate otherwise, the translations of RMB and US dollars into Hong Kong dollars and vice versa, have been made at the rate of RMB1 to approximately HK$1.16 and US$1 to approximately HK$7.80, respectively in this prospectus. No representation is made that any amounts in RMB, US dollars or Hong Kong dollars can be or could be, or have been, converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

ROUNDING

Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table between totals and sums of individual amounts listed in any table are due to rounding.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Dai Shunhua (戴順華先生)	No. 2, Building 21 Hemu Longshan Manor Zhicheng Town, Changxing County Zhejiang Province PRC	Chinese
Ms. Song Xiaoying (宋曉英女士)	No. 2, Building 21 Hemu Longshan Manor Zhicheng Town, Changxing County Zhejiang Province PRC	Chinese
Mr. Wang Yongkang (王永康先生)	No. 144 Niudianwan New Village Zhicheng Town, Changxing County Zhejiang Province PRC	Chinese
Independent non-executive Directors		
Mr. Leung Ka Tin (梁家鈿先生)	Flat F, 18th Floor Block 9, Le Point 8 King Leng Road Tiu Keng Leng Tseung Kwan O New Territories Hong Kong	Chinese
Dr. Liu Bo (劉波博士)	Room 901, 9th Floor Block 2 No. 3 Beishuang Street Chengdu Sichuan PRC	Chinese
Mr. Yu Chung Leung (余仲良先生)	House 112, Cypress Drive Palm Springs Monterey Yuen Long New Territories Hong Kong	Chinese

Note: Further information is disclosed in the section headed "Directors and Senior Management" in this prospectus.

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor	**Cinda International Capital Limited** 45th Floor COSCO Tower 183 Queen's Road Central Hong Kong
Sole Global Coordinator	**Cinda International Capital Limited** 45th Floor COSCO Tower 183 Queen's Road Central Hong Kong
Joint Bookrunners and Joint Lead Managers	**Cinda International Capital Limited** 45th Floor COSCO Tower 183 Queen's Road Central Hong Kong **ChaoShang Securities Limited** Rooms 2206–2210, 22nd Floor China Resources Building 26 Harbour Road Wanchai, Hong Kong
Co-Lead Managers	**Alpha Financial Group Limited** Room A, 17th Floor Fortune House 61 Connaught Road Central Central, Hong Kong **Aristo Securities Limited** Room 101, 1st Floor On Hong Commercial Building 145 Hennessy Road Wanchai, Hong Kong **Head & Shoulders Securities Limited** Room 2511, 25th Floor COSCO Tower 183 Queen's Road Central Hong Kong

I Win Securities Limited
Room 1916
Hong Kong Plaza
188 Connaught Road West
Sai Wan, Hong Kong

Pacific Foundation Securities Limited
11th Floor
New World Tower II
16–18 Queen's Road Central
Hong Kong

Supreme China Securities Limited
Suites 2701–2, 27th Floor
Everbright Centre
108 Gloucester Road
Wanchai, Hong Kong

Legal advisers to our Company

As to Hong Kong law:
ONC Lawyers
19th Floor, Three Exchange Square
8 Connaught Place, Central
Hong Kong

As to the PRC law:
AllBright Law Offices
9, 11, 12th Floor, Shanghai Tower
No. 501 Yincheng Middle Road
Pudong New Area
Shanghai 200120
PRC

As to Cayman Islands law:
Appleby
2206–19 Jardine House
1 Connaught Place, Central
Hong Kong

Legal advisors to the Sole Sponsor and the Underwriters	*As to Hong Kong law:* **Khoo & Co.** 2nd, 5th & 16th Floor Tern Centre Tower 2 251 Queen's Road Central Hong Kong *As to the PRC law:* **Jingtian & Gongcheng** 34th Floor, Tower 3, China Central Place 77 Jianguo Road, Chaoyang District Beijing 100025 PRC
Auditors and reporting accountants	**Deloitte Touche Tohmatsu** *Certified Public Accountants* 35th Floor, One Pacific Place 88 Queensway Hong Kong
Industry Consultant	**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.** 1018, Tower B 500 Yunjin Road Shanghai 200232 PRC
Compliance adviser	**Cinda International Capital Limited** 45th Floor COSCO Tower 183 Queen's Road Central Hong Kong
Receiving bank	**Standard Chartered Bank (Hong Kong) Limited** 15th Floor Standard Chartered Tower 388 Kwun Tong Road Hong Kong

Registered office	PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business in the PRC	Jiapu Economic Development Area Changxing County, Huzhou City Zhejiang Province PRC
Principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance	19th Floor, Three Exchange Square 8 Connaught Place Central Hong Kong
Company's website	**www.narnia.hk** *(Note: the information contained in this website does not form part of this prospectus)*
Company secretary	Mr. Chan Hon Wan *(HKICPA)* Flat B, 27th Floor, Block 9 Tung Chung Crescent 2 Mei Tung Street, Tung Chung Lantau, New Territories Hong Kong
Authorised representatives (for the purposes of the GEM Listing Rules)	Mr. Chan Hon Wan *(HKICPA)* Flat B, 27th Floor, Block 9 Tung Chung Crescent 2 Mei Tung Street, Tung Chung Lantau, New Territories Hong Kong Mr. Dai Shunhua No. 2, Building 21 Hemu Longshan Manor Zhicheng Town, Changxing County Zhejiang Province PRC
Compliance officer	Mr. Dai Shunhua

Audit committee	Mr. Yu Chung Leung *(Chairman)* Dr. Liu Bo Mr. Leung Ka Tin
Remuneration committee	Mr. Leung Ka Tin *(Chairman)* Dr. Liu Bo Mr. Yu Chung Leung
Nomination committee	Dr. Liu Bo *(Chairman)* Mr. Leung Ka Tin Mr. Yu Chung Leung
Principal share registrar and transfer office in the Cayman Islands	**Estera Trust (Cayman) Limited** PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Hong Kong branch share registrar and transfer office	**Tricor Investor Services Limited** Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Principal banks	**Zhejiang Changxing Rural Commercial Bank Company Limited*** **(浙江長興農村商業銀行股份有限公司)** No. 1298 Mingzhu Road Taihu Street Changxing County Zhejiang Province PRC **Industrial and Commercial Bank of China Limited, Changxing Branch** No. 218 Jinling Middle Road Zhicheng Town, Changxing County Zhejiang Province PRC

This section contains information which is derived from official government publications and industry sources as well as a commissioned report from Frost & Sullivan. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or neither any of their affiliates or advisers, nor any other parties involved in the Share Offer and no representation is given as to its accuracy. Our Directors believe after taking reasonable care, that there have been no material adverse changes in the market information since the date of issue of the Frost & Sullivan Report which maybe qualify, contradict or have an impact on the information in this section.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on (i) the textile industry and (ii) the textile fabric manufacturing & printing and dyeing industry in the PRC for the period from 2013 to 2022. We paid Frost & Sullivan a fee of RMB399,000, which we believe reflects market rates for reports of this type.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe this information facilitates an understanding of (i) the textile industry and (ii) the textile fabric manufacturing & printing and dyeing industry in the PRC for the prospective investors. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of (i) the textile industry and (ii) the textile fabric manufacturing & printing and dyeing industry in the PRC. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database.

In compiling and preparing the research, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period from 2018 to 2022. In addition, Frost & Sullivan has developed its forecast on the bases and assumptions that (i) the textile industry and (ii) the textile fabric manufacturing & printing and dyeing industry in the PRC is expected to grow based on the key industry drivers including favourable government policies and higher acceptance to textile and textile fabric.

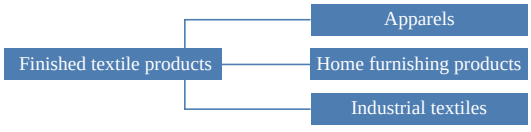
DIRECTOR'S CONFIRMATION

Our Directors have confirmed that after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

OVERVIEW OF TEXTILE INDUSTRY IN THE PRC

Introduction of textile industry

Textile products produced in the textile industry have a wide range of application. Finished textile products can be classified into apparels, home furnishing products and industrial textiles which include indoor and outdoor products that are applied in various industries such as agriculture, construction, automation, pharmaceuticals and other sectors.



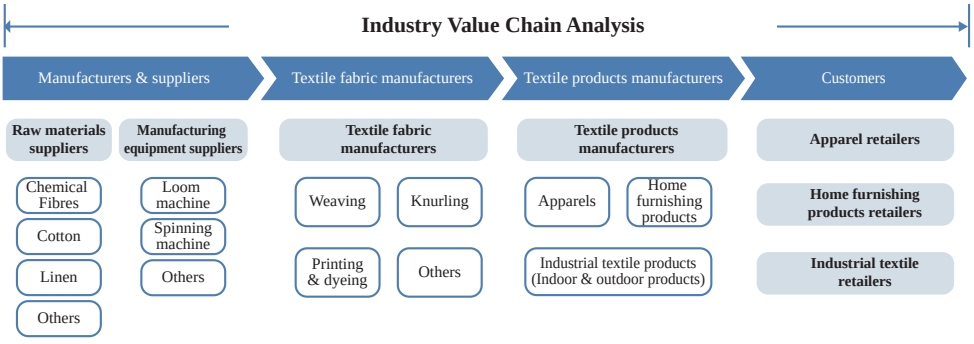
Source: *Frost & Sullivan*

The upstream of the value chain of the textile industry mainly consists of, raw material suppliers such as chemical fibres, cotton and linen manufacturers, distributors and suppliers and manufacturing equipment suppliers including loom machine and spinning machine.

Textile fabric manufacturers and textile products manufacturers constitute the middle stream of the value chain of the textile industry. Textile products manufacturers may source textile fabrics from textile fabric manufacturers or manufacture by themselves. The production of textile fabrics usually includes a series of steps including weaving, knurling, printing and dyeing and other procedures. Services scope of textile products manufacturers depend on a series of factors such as target consumer market, production technology, capacity and downstream application. Generally, manufacturers produce textile products based on different requests from downstream customers.

The downstream is made up of textile products retailers, which could be divided into three major groups, i.e. apparel retailers, home furnishing products retailers and industrial textile retailers.

The diagram below describes the value chain of textile industry in the PRC.



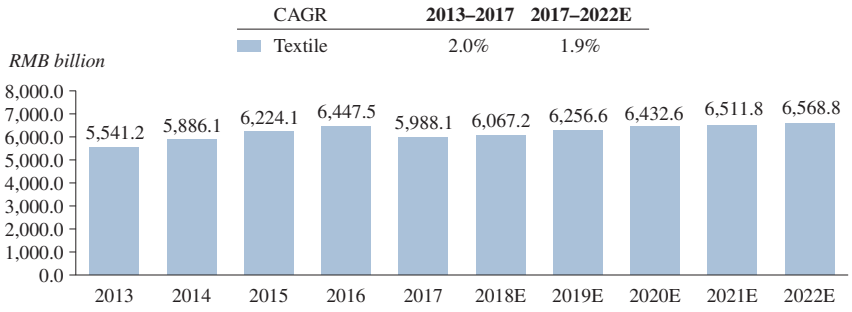
Source: Frost & Sullivan

Market size of textile industry in the PRC

During the period between 2013 and 2016, the total market size of textile industry in the PRC in terms of revenue increased steadily from approximately RMB5,541.2 billion in 2013 to approximately RMB6,447.5 billion in 2016. In 2017, the total revenue of the industry dropped to approximately RMB5,988.1 billion as lots of textile companies suspended their production under the strengthened environmental policy control.

After a period of adjustment and industry optimisation, it is anticipated that the growth rate of the textile industry would likely gradually show an uptrend and the total market size in terms of revenue would reach approximately RMB6,568.8 billion in 2022, representing a CAGR of approximately 1.9% from 2017.

Market Size of Textile Industry, by Revenue (the PRC), 2013–2022E



Source: China National Textile and Apparel Council, Frost & Sullivan

OVERVIEW OF TEXTILE FABRIC MANUFACTURING & PRINTING AND DYEING INDUSTRY IN THE PRC

Introduction of textile fabric manufacturing & printing and dyeing industry

The textile fabric manufacturing & printing and dyeing industry, which can also be classified as textile fabric production industry involves the manufacturing of textile fabric such as grey fabrics, followed by a series of processing steps, including dyeing, printing and finishing, and post-processing techniques such as alkali treatment. In some case, players in the textile fabric production industry also provide value-added services such as products design and logistics services.

The upstream along the value chain of the textile fabric production industry consists of raw material suppliers who are mainly yarn and grey fabrics manufacturers or distributors and manufacturing equipment suppliers including dyeing machine and jigger machine suppliers, additives suppliers which supply dye and other chemical additives.

The middle stream textile fabric products manufacturers mainly process textile fabrics and conduct a series of refinement processes such as printing, dyeing, knitting and fabric setting. Other value-added services such as design, colour management as well as after-sale consultation services and supply chain services may also be provided. In general, fabric products are produced based on the specific requests from downstream customers which mainly comprise of apparel manufacturers, home furnishing products manufacturers, industrial textile manufacturers and distributors.

The diagram below describes the value chain of textile fabric manufacturing & printing and dyeing industry in the PRC.

Value Chain of Textile Fabric Manufacturing & Printing and Dyeing Industry in the PRC

Source: Frost & Sullivan

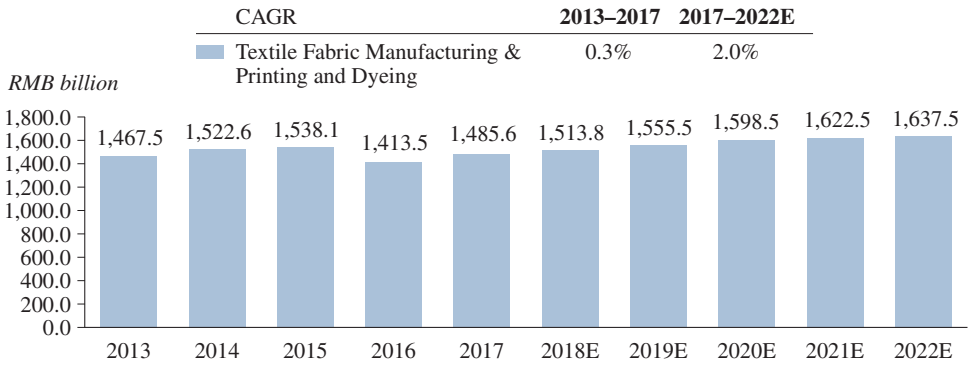
Market size of textile fabric manufacturing & printing and dyeing industry in the PRC

Market size of textile fabric manufacturing & printing and dyeing industry

In line with the textile industry, textile fabric manufacturing & printing and dyeing industry experienced fluctuation in terms of market size by revenue over the period from 2013 to 2017, increasing from approximately RMB1,467.5 billion in 2013 to approximately RMB1,485.6 billion in 2017 at a CAGR of 0.3%, and the sudden decrease in 2016 was mainly due to the stricter control on environmental issues and tightened material supply from the upstream.

As the increasing investment in environmentally-friendly technology and equipment upgrading, it is projected that the revenue of textile fabric manufacturing & printing and dyeing industry in the PRC would increase slowly but steadily from approximately RMB1,485.6 billion in 2017 to approximately RMB1,637.5 billion in 2022, representing a CAGR of 2.0%.

Market Size of Textile Fabric Manufacturing & Printing and Dyeing Industry, by Revenue (the PRC), 2013–2022E

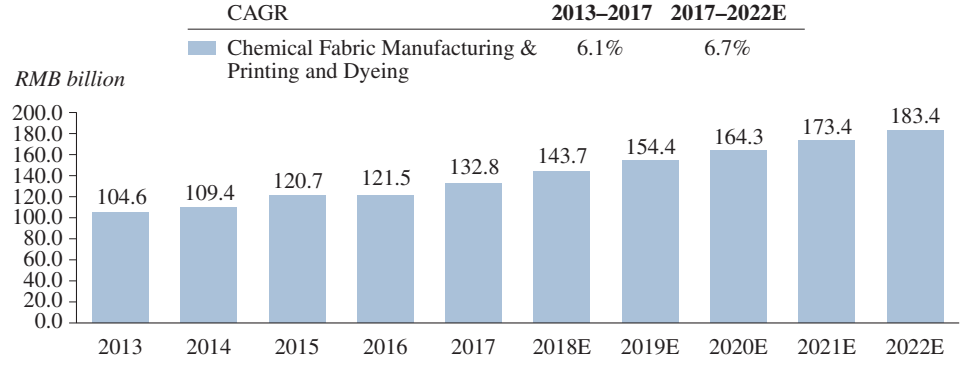


Source: China National Textile and Apparel Council, Frost & Sullivan

Market size of chemical fabric manufacturing & printing and dyeing industry

Chemical fabrics are fabrics which use chemical fibres as raw materials. The chemical fabric segment of the textile fabric manufacturing & printing and dyeing industry demonstrated a continuous growth trend from 2013 to 2017, increasing from approximately RMB104.6 billion in 2013 to approximately RMB132.8 billion in 2017 at a CAGR of 6.1%, benefitting from lower prices and being more versatile than natural fabrics such as cotton. As result, the chemical fabric segment has been continuously expanding and overtaking natural fabrics in terms of the market shares in the whole textile fabric manufacturing & printing and dyeing industry. Stimulated by the improvement of technology and lower energy consumption in production, the chemical fabric segment is expected to continue with an upward trend in the future and reach approximately RMB183.4 billion in 2022.

Market Size of Chemical Fabric Manufacturing & Printing and Dyeing Industry, by Revenue (the PRC), 2013–2022E

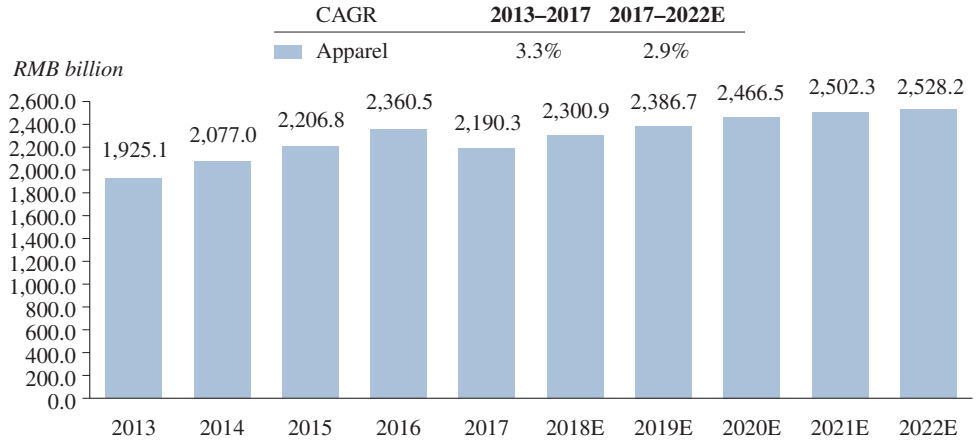


Source: China National Textile and Apparel Council, Frost & Sullivan

Market size of apparel industry

Apparel industry is the biggest downstream application of textile fabric manufacturing & printing and dyeing industry in the PRC. Over the period from 2013 to 2017, the total revenue of apparel industry in the PRC increased from approximately RMB1,925.1 billion in 2013 to approximately RMB2,190.3 billion in 2017, representing a CAGR of approximately 3.3%. In 2017, the total revenue of apparel industry in the PRC dropped approximately 7.2%, indicating the industry has entered into industrial adjustment stage. While the domestic consumption remains robust, the apparel industry in the PRC would likely grow at a slower pace and reach approximately RMB2,528.2 billion in 2022, representing a CAGR of approximately 2.9% from 2017.

Market Size of Apparel Industry, by Revenue (the PRC), 2013–2022E

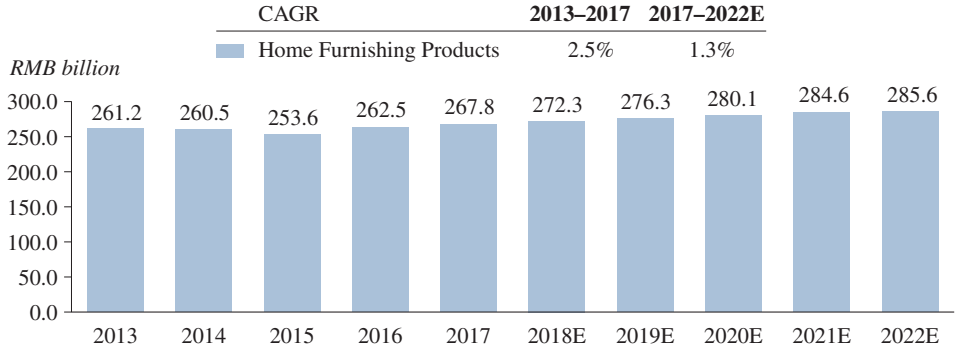


Source: National Bureau of Statistics of the PRC, Frost & Sullivan

Market size of home furnishing products industry

The revenue from home furnishing products industry in the PRC increased at a CAGR of approximately 2.5%, from approximately RMB261.2 billion in 2013 to approximately RMB267.8 billion in 2017, despite slight fluctuation in 2015. With the improvement of living condition and rising demand brought by wedding consumption, the home furnishing products industry in the PRC would likely further increase to approximately RMB285.6 billion in 2022, representing a CAGR of approximately 1.3% from 2017.

Market Size of Home Furnishing Products Industry, by Revenue (the PRC), 2013–2022E



Source: National Bureau of Statistics of the PRC, Frost & Sullivan

Market size of industrial textiles industry

Underpinned by the expanding demand for medical and hygiene textiles, construction textiles, transport textiles, protective and safety textiles and other industrial textiles, the industrial textile industry delivered a vigorous growth trend from 2013 to 2017, increasing from approximately RMB238.4 billion in 2013 to approximately RMB309.5 billion in 2017 at a CAGR of approximately 6.7%.

As the fundamental industry in the real economy, the industrial textiles industry in the PRC would continue benefit from the development and improvement of technology and strong demand from infrastructure and medical industries. The industrial textiles industry is projected to reach approximately RMB371.0 billion in 2022, representing a CAGR of approximately 3.7% from 2017.

Market Size of Industrial Textiles Industry, by Revenue (the PRC), 2013–2022E

Source: National Bureau of Statistics of the PRC, Frost & Sullivan

KEY DRIVERS AND FUTURE OUTLOOK FOR TEXTILE INDUSTRY AND TEXTILE FABRIC MANUFACTURING & PRINTING AND DYEING INDUSTRY IN THE PRC

Key drivers

- ***Continuous domestic demands***

As a populous country, the PRC has demonstrated growing demand for textile products and such trend is likely to continue in the future. Benefiting from the diversity of textile products, textile products can be applied in various fields in addition to the traditional apparel market and home textile market. Other types of textile products, for instance, industrial canvas and tarpaulin, dust cover cloth, blankets, pads and so forth are widely applied in sectors such as agricultural cultivation, fishery aquaculture, construction, recreational and sports goods, medical and health fields, etc. As a result, such strong domestic demands spur the overall textile industry in the PRC.

- ***Increasing investment***

The past few years witnessed rapid growth in fixed asset investment in the textile industry. According to the National Bureau of Statistics, the fixed asset investment in the textile industry increased from approximately RMB469.9 billion in 2013 to approximately RMB693.6 billion in 2017, representing a CAGR of approximately 10.2%. With the growing demand from various industries of the PRC, it is expected that the enthusiasm from the PRC Government and enterprises to invest in the textile industry will continue to rise, which injects impetus to the sustainable development of the textile industry.

- ***Support from the PRC Government***

The attention to the development of textile industry from the PRC Government remained unabated during the past years. Relevant policies were promulgated by the PRC Government to help promote the structural adjustment of the textile industry in the PRC. For instance, in December 2016, the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和訊息化部) has issued the 13th Five-Year Plan, where the guiding opinions on the development of textile industry focused on the technological development of new materials, construction of textile infrastructure, and the strengthening of environmental protection. In terms of textile infrastructure construction, the usage of automised machines and equipment are highly encouraged to enhance production efficiency and to adapt to the rapid development of big data and e-commerce. For development of new materials, the research and development of green materials, multi-functional and composite materials and smart materials are highlighted to cater for the diversified demands from downstream application sectors, ranging from apparel, home textile to construction and transportation, military industry to aerospace materials. The 13th Five-Year Plan also outlined the innovative capability in research and development of chemical fibre, for instance, to develop highly flexible polyester, polyamide fibre and other chemical fibres, to enrich the functionalities and differentiation of polyester, viscose, polyamide, and acrylic fibre products and to improve the overall product performance and quality.

- ***Continuous technological innovation***

With the advancement of technology, players in the textile fabric production industry are actively developing new materials that can be applied in different sectors, ranging from aerospace and infrastructure construction to leisure and sports. For example, fibre reinforced composites are widely used in automation and energy industry benefiting from the strong tensile force that enables the finished textile fabric products to bear intense physical pressure. As a result, the continuous technological innovation would be a stimulus to the further development of textile fabric production industry.

- ***Formation of the industrial cluster***

In order to promote the industrial upgrading, players in the textile fabric production industry are to liaise with other by forming an industrial cluster within a region. Through embracing the resources shared by various enterprises, an industrial cluster serves as a platform where information with regard to latest market trend, big events in the industry, changes in raw materials from the upstream and so forth are gathered and integrated to keep companies informed of market dynamics so as to work out timely strategies. Such industrial cluster brings advantages for companies to form economies of scale and therefore drives the sustainable development of overall textile fabric production industry.

Future trends

- ***Standardisation of the textile industry***

Chemical substances featuring toxicity or detriments such as benzene and formaldehyde that are produced during the process of manufacturing certain textile products cause environment pollution. With the view to uphold environment protection, the PRC Government highlighted the green manufacturing in the "Made in China 2025" in 2016. In 2018, Environmental Protection Tax Law came into effect where taxes would be charged based on the specific amount of waste discharged from manufacturing industries including the textile sector. In order to comply with stringent standards, players in the textile industry are expected to keep upgrading production lines by advanced and environmental-friendly equipment, which further contributes to the sustainable development of the industry.

- ***Diversified functions of textile fabric products***

With the advanced technology such as the upgrading of the machines as well as the dramatic changes from the consumer markets, manufacturers tends to make more contribution to research and develop new textile fabric products featured with diversified functions that can be applied in a wide range of areas, such as the construction market, the home decoration market, etc. Moreover, textile fabric products with unique features such as fluorescence, recyclability, water proof and so forth are expected to become popularised in the consumer market as such products are likely to provide differentiated user experience and to further cater for various demands from different customer groups.

- ***Optimisation of the supply chain***

In order to promote the industrial upgrading, players in the textile fabric production industry are to liaise with other by forming an industrial cluster within a region. Through embracing the resources shared by various enterprises, an industrial cluster serves as a platform where information with regard to latest market trend, big events in the industry, changes in raw materials from the upstream and so forth are gathered and integrated to keep companies informed of market dynamics so as to work out timely strategies. Such industrial cluster brings advantages for companies to form economies of scale and therefore drives the sustainable development of overall textile fabric production industry.

- ***Increase in industrial concentration***

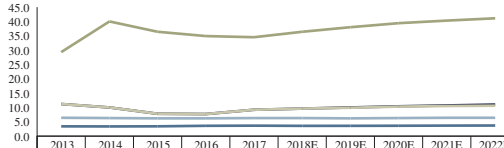
Currently, the textile fabric printing and dyeing industry in the PRC is fragmented with strong presence of small-to-medium sized companies and with revenue generated by top five players taking up less than 5% of the entire market size in 2017. However, in order to comply

with the newly issued environmental tax law, local governments have taken measures accordingly such as requiring printing and dyeing companies to upgrade their equipment so as to meet the environmental protection standard. Companies with small scale who could not afford high cost to upgrade manufacturing machines or lack the ability to meet stringent standards may be gradually driven out of the market. Thus, it is expected that the textile fabric printing and dyeing industry would embrace an increase in industrial concentration in the future with leading players preforming stronger bargaining power.

Raw material prices of textile fabric manufacturing & printing and dyeing industry

Grey fabrics, dye and yarn are three major raw materials used in the textile fabric production industry. And chemical fibres are major raw materials for the production of grey fabrics. The average selling price of chemical fibres (polyester filament yarn) below refers to the average selling price of several kinds of polyester filament yarns including fully drawn yarn (FDY), preorientted yarn (POY) and draw texturing yarn (DTY). From 2013 to 2017, the price of chemical fibres decreased from RMB11.2 per kilogram to RMB9.2 per kilogram while the price of grey fabrics increased from RMB3.4 per metre to RMB3.7 per metre. Over the period from 2013 to 2017, compared with the price of grey cloth, which stayed stable between RMB6.2 to RMB6.4 per metre, the price fluctuation of dye was relatively volatile during the same period. The price of dye reached the peak of approximately RMB40.0 per kilogram in 2014 and then decreased to approximately RMB34.5 per kilogram in 2017, which was mainly due to the overcapacity of upstream chemical materials. Meanwhile, the price of yarn decreased from 2013 to 2016 and bounced back to approximately RMB9.2 per kilogram and might continue the upward trend in the next five years mainly due to progress of elimination of outdated capacity and optimisation of industry infrastructure.

Raw Material Prices of Textile Fabric Manufacturing & Printing and Dyeing Industry in the PRC, 2013–2022E



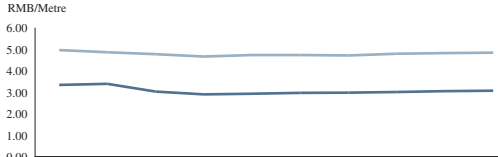
	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Gey Cloth (Cotton) *(RMB/m)*	6.4	6.3	6.2	6.2	6.3	6.3	6.2	6.3	6.4	6.4
Grey Fabrics (Polyester) *(RMB/kg)*	3.4	3.4	3.4	3.6	3.7	3.6	3.6	3.6	3.7	3.7
Dye *(RMB/kg)*	29.3	40.0	36.4	34.9	34.5	36.4	38.0	39.4	40.3	41.1
Yarn *(RMB/kg)*	11.2	10.0	7.8	7.7	9.2	9.6	9.9	10.3	10.5	10.6
Chemical Fibres (Polyester Filament Yarn) *(RMB/kg)*	11.2	10.0	7.8	7.7	9.2	9.6	10.0	10.4	10.7	11.0

Source: Frost & Sullivan

Prices of major textile fabric products

During the year from 2013 to 2016, the price of brushed fabric experienced the continuous downward trend and bounced back and remained stable in 2017 and 2018. It is expected that the price of brushed fabric will stay relatively stable and reach approximately RMB4.84 per metre in 2022. Meanwhile, the price of sateen experienced fluctuations and decreased from approximately RMB3.34 per metre in 2013 to approximately RMB2.93 per metre in 2017, representing a CAGR of approximately -3.2%. However, the price of sateen bounced back to approximately RMB2.97 per metre in 2018 and it is estimated that the price of sateen will slightly increase to approximately RMB3.07 per metre in 2022.

Prices of Major Textile Fabric Products in the PRC, 2013–2022E



	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Brushed Fabric	4.96	4.86	4.77	4.66	4.73	4.73	4.71	4.79	4.82	4.84
Sateen	3.34	3.39	3.03	2.90	2.93	2.97	2.98	3.01	3.05	3.07

Source: Frost & Sullivan

COMPETITIVE LANDSCAPE OF TEXTILE FABRIC MANUFACTURING & PRINTING AND DYEING INDUSTRY IN THE PRC

Ranking of textile fabric manufacturing & printing and dyeing industry in the PRC

The textile fabric manufacturing & printing and dyeing industry in the PRC, which includes but not limited to the manufacturing, printing and dyeing of chemical and knitted fabrics, cotton and silk so forth was considered to be fragmented and competitive in 2017 with thousands of players manufacturing different types of textile fabric products. In 2017, the top five textile fabric manufacturers in the PRC contributed to approximately 1.55% of the overall textile fabric manufacturing & printing and dyeing industry with their aggregated revenue totaling approximately RMB23,009.4 million.

Set forth below is the table with information of top five players in terms of revenue in textile fabric manufacturing & printing and dyeing industry in the PRC in 2017:

Ranking	Company type	Textile fabric players	Principal business	Total revenue in textile fabric manufacturing & printing and dyeing in the PRC, 2017 *(RMB million)*	Estimated market share, 2017
1	A company listed on Shenzhen Stock Exchange (stock code: 002042)	Company A	Manufacture and sales of colour spinning yarn, specialising in high-end colour and dyed yarn, as well as value-added services such as certification of fashion trends, raw materials and product certification and technical consultation	5,886.0	0.40%
2	A company listed on Shanghai Stock Exchange (stock code: 601339)	Company B	Research and development, manufacture and sales of colour spinning yarns	5,651.0	0.38%
3	A company listed on Shenzhen Stock Exchange (stock code: 200726)	Company C	Producing and selling middle and high-grade yarn-dyed fabric and dyeing fabric for shirts and garment	4,624.8	0.31%
4	A company listed on Shenzhen Stock Exchange (stock code: 000158)	Company D	Sales of grey fabrics, cotton yarn, cotton and other businesses such as software and information technology services business	3,621.5	0.24%
5	A company listed on Shanghai Stock Exchange (stock code: 600987)	Company E	Printing and dyeing industry, thermoelectric business, non-woven product, weaving business, sewage treatment business and shipping business	3,226.1	0.22%
			Top five total	23,009.4	1.55%
		The Company	***Manufacturing, printing & dyeing of various textile fabric products***	238.3	0.01%
			Other players	1,462,340.8	98.44%
			Total revenue	1,485,588.5	100.0%

Source: Frost & Sullivan

COMPETITIVE LANDSCAPE OF THE TEXTILE FABRIC MANUFACTURING MARKET IN THE PRC

Ranking of textile fabric manufacturing industry in the PRC

As for the textile fabric manufacturing market, it was quite fragmented in 2017. Revenue generated by the top five players contributed to approximately 1.88% of the textile fabric manufacturing industry in the PRC in 2017 and our Group took up a share of approximately 0.02%.

Set forth below is the table with information of top five players in terms of revenue in textile fabric manufacturing industry in the PRC in 2017:

Ranking	Company type	Textile fabric manufacturers	Principal business	Total revenue from textile fabric manufacturing in the PRC, 2017 *(RMB million)*	Estimated market share, 2017
1	A company listed on Shenzhen Stock Exchange (stock code: 002042)	Company A	Manufacture and sales of colour spinning yarn, specialising in high-end colour and dyed yarn, as well as value-added services such as certification of fashion trends, raw materials and product certification and technical consultation	5,886.0	0.55%
2	A company listed on Shanghai Stock Exchange (stock code: 601339)	Company B	Research and development, manufacture and sales of colour spinning yarns	5,651.0	0.53%
3	A company listed on Shanghai Stock Exchange (stock code: 000158)	Company D	Sales of grey fabrics, cotton yarn, cotton and other businesses such as software and information technology services business	3,621.5	0.34%
4	A company listed on Shanghai Stock Exchange (stock code: 601599)	Company I	Manufacturing and sales of textile fabrics, yarns and wool fabrics	2,734.0	0.25%
5	A company listed on Shanghai Stock Exchange (stock code: 603889)	Company J	Manufacturing and sales of knitted fabrics, fur fabrics and so forth	2,217.0	0.21%
			Top five total	20,109.5	1.88%
		The Company	*Manufacturing of various textile fabric products*	166.7	0.02%
			Total revenue	1,074,136.0	100.00%

Source: Frost & Sullivan

COMPETITIVE LANDSCAPE OF TEXTILE FABRIC PRINTING AND DYEING INDUSTRY

Ranking of textile fabric printing and dyeing industry in the PRC

As a significant sector of the entire textile fabric production industry, textile fabric printing and dyeing industry in the PRC was relatively fragmented in 2017. There were approximately 2,100 textile fabric printing and dyeing enterprises above designated size* in the PRC, which was much lower than the approximately 20,200 enterprises above designated size in the total textile fabric production industry in the PRC. Revenue generated by the top five players contributed to approximately 3.98% of the entire textile fabric industry in the PRC in 2017 and our Group took up a share of approximately 0.02%. Zhejiang Province is one of the top provinces for textile manufacturing in the PRC, which accounted for approximately 22.0% of total production volume in 2017. There were over 600 printing and dyeing companies of different size and operation scale during the same year.

Note: Enterprises above designated size refer to enterprises with more than RMB20 million revenue in a given year.

The supply and demand in the printing and dyeing industry in the PRC is generally steady, which is mainly due to the industry norm that manufacturers would only start to manufacture the products upon receiving purchase orders from their customers.

The stringent environmental regulations introduced by the PRC Government in 2017 has weeded out a number of small-sized companies in the printing and dyeing industry, the surviving ones have been actively upgrading their manufacturing equipment to cater with the regulatory requirements. Accordingly, the production efficiency of the whole industry has been improved. For instance, Zhejiang Province has recorded a year-over-year growth rate of approximately 13.0% of revenue in printing and dyeing industry from 2016 to 2017 due to the shut down of a number of companies with old and outdated facilities.

Set forth below is the table with information of top five players in terms of revenue in textile fabric printing and dyeing industry in the PRC in 2017:

Ranking	Company type	Textile fabric printing and dyeing players	Principal business	Total revenue in textile fabric printing and dyeing in the PRC, 2017 *(RMB million)*	Estimated market share, 2017
1	A company listed on Shenzhen Stock Exchange (stock code: 200726)	Company C	Producing and selling middle and high-grade yarn-dyed fabric and dyeing fabric for shirts and garment	4,624.8	1.12%
2	A company listed on Shanghai Stock Exchange (stock code: 600987)	Company E	Printing and dyeing industry, thermoelectric business, non-woven product, weaving business, sewage treatment business and shipping business	3,226.1	0.78%
3	Private	Company F	Research and development, manufacture and sales of draw texturing yarn, fully drawn yarn, pre-oriented yarn and polyester slice and provision of printing and dyeing services	3,145.2	0.76%
4	Private	Company G	Research and development, manufacture and sales of cotton, yarn, fibre fabrics and provision of printing and dyeing services	3,020.4	0.73%
5	A company listed on Shanghai Stock Exchange (stock code: 600448)	Company H	Printing and dyeing, including spinning, garments, home textile products, textile trade, brand development, diversified development model of "B2B" platform, financial investment and thermal power business	2,371.3	0.58%
			Top five total	16,387.7	3.98%
		The Company	***Printing & dyeing of various textile fabric products***	71.6	0.02%
			Other players	394,993.2	96%
			Total revenue	411,452.5	100.0%

Source: Frost & Sullivan

Large players usually provide diverse product portfolio in terms of types of fabrics, ranging from cotton, fibre to silk, knit and so forth, and have already formed economies of scale due to their stable output. Established participants usually have long-term and stable relationship with downstream customers and tend to attract manufacturers from different sectors such as the apparel, the home furnishing products textile and industrial textile benefited from their market recognition. Furthermore, established participants usually have formed comparatively complete value chain; in other words, they are equipped with the ability to manufacture raw materials such as grey fabrics, which is beneficial for lowering cost of their operation.

Zhejiang Province is among the top provinces for textile manufacturing in the PRC accounting for approximately 22.0% of the total production volume in the PRC in 2017. As at 2017, there were over 4,800 enterprises of different size and operation scale in Zhejiang Province.

Key entry barriers of textile fabric manufacturing & printing and dyeing industry in the PRC

- ***Intense competition***

The textile fabric production industry is competitive with thousands of participants in the industry. Sizable small to medium sized companies have to face the increasing pressure from the leading ones while at the same time compete with each other to survive in the market. It is difficult for new entrants to grab partial market share in view of the fact that leading players have already established reliable cooperative relationship with famous brands and such cooperation cannot be achieved in a short period.

- ***Effective management team***

An effective management team plays a significant role in managing the relationship between the company and its suppliers as well as customers. Information and requirements from the customers must be communicated to the production team and suppliers within time and without error to ensure the products quality and delivery time. Moreover, a management team should have a proper interpretation of the overall industry so as to coordinate the entire business flow.

- ***Strong cash flow flexibility***

There exits payment days ranging from half a month to one and a half month between the time when the textile fabric production manufacturers receive total revenue from customers and when their customers receive products. Thus, players are required to be equipped with strong cash flow flexibility to handle the sourcing of raw materials, the extra orders from customers, the expansion of production lines and so on, which may exert financial pressure on new entrants.

- ***Shifting market demands***

The consumer market is characterised by constantly changing requirement in terms of products design, functions and so forth. Thus, orders requested by retailers change as well in order to cater for end users' demands, which requires the correspondingly quick response from the textile fabric production manufacturers when confronted with diverse requests. The ability to ensure the consistency of product quality while at the same time response sensitively to the shifting requirements from downstream retailers requires long-term cultivation and experience accumulation of textile fabric production manufacturers, which poses barriers for new entrants.

- ***Stringent environmental compliance***

In order to ensure the sound and sustainable development of the textile printing and dyeing market in the PRC, the Ministry of Industry and Information Technology of the PRC has issued the standards for the printing and dyeing industry and measures for the regulation and administration of printing and dyeing enterprises. The standards has outlined that printing and dyeing enterprises have to upgrade their manufacturing equipment to improve production efficiency and be equipped with wastewater treatment facilities to deal with chemical contaminant produced during the dyeing process. In addition, printing and dyeing companies are required to apply for sewage discharge licence and strictly comply to the requirement accordingly. The stringent compliance regarding the environmental protection tends to raise the entry barrier and operating costs as market players who cannot afford the high cost brought by equipment upgrading to abide by the new standards are likely to be driven out of the market.

Competitive advantages of our Group

Our Directors believe that our competitive strengths have contributed to our success in the textile fabric production industry. Some of our competitive strengths include our strategic location in Huzhou City, strong research and development capabilities, automated production process with high efficiency and cost effectiveness, wide range of product offering and experienced management with strong knowhow. Please refer to the section headed "Business – Competitive strengths" in this prospectus for further details.

The majority of our business is located in the PRC and a significant part of our sales are derived from the PRC. Accordingly, we run our business under the supervision of the PRC's regulatory authorities, which consists of the National People's Congress (the "**NPC**"), the Standing Committee of the National People's Congress (the "**SCNPC**"), the State Council and the subordinate departments thereof.

Our main business includes textile manufacturing, printing and dyeing in the PRC. We are principally subject to the following laws, rules and regulations that affect our business activities in the PRC and our shareholders' rights to receive dividends and other distributions from us.

TEXTILE PRINTING AND DYEING INDUSTRY

Industry Requirements

It is allowed and encouraged to establish foreign investment enterprises in the industry of textile printing and dyeing. Although there is no pre-approval procedures for the establishment of such foreign investment enterprises, the Textile Printing and Dyeing Industry Standard Conditions (2017 Revision) (《印染行業規範條件(2017年版)》) (the "**Industry Standard Conditions (2017 Version)**") issued by the Ministry of Industry and Information Technology of the PRC (the **"MIIT"**) on 31 August 2017 and became effective on 1 October 2017, sets specific standard conditions to the printing and dyeing projects on the layout of enterprises, technique and equipment, quality and management, resource consumption, environmental protection and comprehensive utilisation of resources, and production safety and social responsibility. This Regulation emphasises the following conditions:

(i) no new printing and dyeing projects shall be established in the scenic spots, nature reserves, drinking water protection areas as defined by the State Council and relevant departments of the state and provincial (autonomous regions and municipalities directly under the central government), and the specified range outside the major rivers; (ii) no new printing and dyeing projects shall be established in the regions with lack of water or with water of poor quality in principal. The development of the printing and dyeing projects in the regions with lack of environmental capacity shall be restricted. The new and expansion projects shall be combined with the elimination of the backward production capacity in the area; (iii) the overall performance of the new and expansion printing and dyeing production lines shall reach or approach the international level; (iv) the printing and dyeing projects shall have their own wastewater treatment system or have access to the centralised industrial wastewater treatment facilities. No wastewater of the printing and dyeing projects shall be discharged to the urban sewage treatment system, the projects must submit to the governmental department in charge of the urban sewage treatment system, the projects for approval and apply for the Pollutant Discharge Permits (排污許可證); and (v) the water recycling rate shall reach 40% or above.

The printing and dyeing project construction, the land supply, the environmental impact assessment approval, the safety production approval, the credit financing, etc. shall be subject to the Industry Standard Conditions (2017 Version). The governmental departments of investment, industry, national land resources, environmental protection, the housing and urban-rural

construction, and safety supervision, etc. shall strengthen their supervision and inspection towards the new and expansion printing and dyeing projects, and no approvals shall be given to those unqualified projects. The new or expansion printing and dyeing project shall not start their production and operation until on the satisfaction of the standard requirements and application for all the related approvals.

According to the Interim Regulations of the Announcement Management of the Printing and Dyeing Industry Standard (《印染企業規範公告管理暫行辦法》) promulgated by the MIIT and became effective on 1 October 2017, public announcement management shall be implemented for those printing and dyeing enterprises consistent with the Industry Standard Conditions (2017 Version). In addition to the satisfaction of standard conditions, the printing and dyeing enterprises shall be an independent legal entity.

Adjustment in the Structure of Industries

Pursuant to the Guiding Catalogue for Adjustment in the Structure of Industries (2011 revision) (《產業結構調整指導目錄(2011年本)》) (the "**Guiding Catalogue for Adjustment (2011 Revision)**") promulgated by National Development and Reform Commission (the "**NDRC**") on 27 March 2011, amended on 16 February 2013, 25 April 2016 and became effective on 1 May 2013, the industries listed in this catalogue is divided into three categories, encouraged, restricted and eliminated. Any industry in accordance with the laws, regulations and policies and not belonging to the three categories shall be classed as "permissible". Differential, functional fibre production and production of high-grade textile fabric by way of adopting cleaner production technology of dyeing, finishing and functional finishing technologies with the function of waterproof, oil proof, anti-fouling, fire-retardant, antistatic and multi-function composite are classed as the encouraged industry.

PRODUCTION

Product Quality

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the "**Product Quality Law**"), promulgated by the SCNPC on 22 February 1993 and amended on 8 July 2000 and 27 August 2009, is the principal governing law to the supervision and administration of product quality. According to the Product Quality Law, manufacturers shall be liable for the quality of products produced by them and sellers shall take measures to ensure the quality of the products sold by them.

A manufacturer shall be liable to compensate for any bodily injuries or damage to property other than the defective product itself resulting from the defects in the product unless the manufacturer is able to prove that: (i) the product has never been circulated; (ii) the defects causing injuries or damage did not exist at the time when the product was circulated; or (iii) the science and technology at the time when the product was circulated were at a level incapable of detecting the defects. A seller shall be liable to compensate for any bodily injuries or damage to property of others caused by the defects in the product if such defects are attributable to the

seller. A seller shall pay compensation if it fails to indicate neither the manufacturer nor the supplier of the defective product. A person who is injured or whose property is damaged by the defects in the product may claim for compensation from the manufacturer or the seller. Pursuant to the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》) promulgated by the NPC on 12 April 1986 and amended on 27 August 2009, both manufacturers and sellers shall be held liable where relevant defective products result in damage to property of others or bodily injuries.

Pursuant to the Tort Liability Law of the PRC (《中華人民共和國侵權責任法》), promulgated by the SCNPC on 26 December 2009 and became effective on July 1, 2010, manufacturers shall assume tort liability where the defects in relevant products cause damage to others. Sellers shall assume tort liability where the defects in relevant products causing damage to others are attributable to the sellers. The aggrieved party may claim for compensation from the manufacturer or the seller of the relevant product in which the defects have caused damage.

Safety Production

Pursuant to the Safety Production Law of the PRC (《中華人民共和國安全生產法》) (the "**Safety Production Law**") released by the SCNPC on 29 June 2002 with effect from November 1, 2002, which was newly amended on 31 August 2014 and effective from 1 December 2014, the production and business operation entities shall be equipped with the conditions for safe production as provided in the Safety Production Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not equipped with the conditions for safe production may not engage in production and business operation activities. The principal supervisor of a production and business entity shall assume responsibility for the production safety of the entity, including the establishment and perfection of its production safety accountability, and the formulation of rules, regulations and operating procedures on production safety. The production and business entity shall provide funds for labour protection articles and training on production safety.

According to the Industry Standard Conditions (2017 Version), safety facilities shall be designed, built, commissioned and operated together with the principal part of the project in accordance with the requirements of the Management Specification of the Safety of the Textile Industry Enterprises (《紡織工業企業安全管理規範》(AQ7002)) and the Code for Design of Occupational Health and Safety of Textile Industry Enterprises (《紡織工業企業職業安全衛生設計規範》(GB50477)). Enterprises shall fulfil their social responsibilities in accordance with the Social Responsibility Management System of the Textile Industry Enterprises (《紡織企業社會責任管理體系》(CSC9000-T)).

FOREIGN INVESTMENT

Companies with limited liability and joint stock limited companies established in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the "**Company Law**"), promulgated by the SCNPC on 29 December 1993, which became effective on 1 July 1994 and was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005,

28 December 2013 and 26 October 2018 respectively. Foreign invested companies are also subject to the Company Law, except as otherwise provided in the foreign investment laws including Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》) (the "**WFOE Law**"), Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法》) (the "**EJV Law**") and Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合作經營企業法》) (the "**CJV Law**"). The *WFOE Law* and *EJV Law* were revised by the SCNPC on 3 September 2016 and the revisions have became effective from 1 October 2016. The *CJV Law* was revised on 3 September 2016, 7 November 2016, and 4 November 2017, respectively. According to the amendment, for wholly foreign-owned enterprises, where the special market entry management measures prescribed by the State do not apply to, their establishment and changes only need to be filed with competent authorities. Pursuant to Announcement No. 22, 2016 issued by the NDRC and Ministry of Commerce of the People's Republic of China (the "**MOFCOM**") (《國家發展和改革委員會/商務部2016年第22號公告》) (the "**Announcement No.22**") on 8 October 2016, the special market entry management measures shall be implemented with reference to the relevant regulations in relation to the restricted foreign-invested industries, prohibited foreign-invested industries and encouraged foreign-invested industries with requirements as to shareholding and senior management stipulated in the Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》). To facilitate the implementation of the above amendments made to the WFOE Law, EJV Law and the CJV Law, the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the "**Interim Measures**") was promulgated by MOFCOM on 8 October 2016, amended on 30 July 2017 and 29 June 2018 and came into effect on 30 June 2018, pursuant to which, the establishment of foreign-invested enterprises, where the special market entry management measures prescribed do not apply to and their changes shall be subject to record-filing instead of examination and approval. Within the record-filing scope stipulated in the Interim Measures, a foreign-invested enterprise shall fill in online and submit an application of record-filing for its establishment or change and the relevant documents for completing the record-filing procedures. However, pursuant to the Announcement No.22, the establishment of an enterprise by way of mergers and acquisitions of domestic enterprises by foreign investors and their changes are still implemented according to the existing laws and regulations including the M&A Rules, instead of the Interim Measures.

Investments in the PRC by foreign investors are regulated by the Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》) (the "**Catalogue**"), the latest version of which was promulgated by the NDRC and the MOFCOM on 28 June 2017 and became effective on 28 July 2017. The Catalogue has been a longstanding tool used by policymakers of the PRC to manage direct foreign investment. The Catalogue is divided into the encouraged industries, the restricted industries and the prohibited industries for foreign investment, and industries not listed in the Catalogue shall be categorised as the permitted industries for foreign investment. Besides, the Special Management Measures (Negative List) for the Access of Foreign Investment (2018) (《外商投資准入特別管理措施 (負面清單) (2018年版)》) were promulgated by the NDRC and the MOFCOM on 28 June 2018 came into effect from 28 July 2018, upon which the Special Management Measures for the Access of Foreign Investment (Negative List for the Access of Foreign Investment) (外商投資准入特別管理措施

(外商投資准入負面清單)) in the Catalogue (2017 Revision) were repealed. The industry in which our PRC subsidiaries are primarily engaged in does not fall into the category of restricted or prohibited industries.

On 8 August 2006, six PRC regulatory agencies, namely, MOFCOM, the State-owned Assets Supervision and Administration Commission of the PRC, the State Administration of Taxation (the "**SAT**"), the State Administration for Industry and Commerce, China Securities Regulatory Commission, and the State Administration of Foreign Exchange (the "**SAFE**"), jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者並購境內企業的規定》) (the "**M&A Rules**"), which became effective on September 8, 2006 and was amended by MOFCOM on 22 June 2009. The M&A Rules require, among others, that a foreign investor acquiring the equity interest in a non-foreign invested PRC enterprise or purchasing and operating the asset of such enterprise by establishing a foreign invested enterprise shall comply with relevant foreign investment industry policies and shall be subject to approval by MOFCOM or its local competent authorities.

TAXATION

Income Tax

Because we carry out our PRC business operations through operating subsidiaries organised under the PRC law, our PRC operations and our operating subsidiaries in China are subject to the PRC tax laws and regulations. Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "**EIT Law**") promulgated by the NPC on 16 March 2007, which became effective from 1 January 2008, and subsequently amended on 24 February 2017, the income tax rate for both domestic and foreign-invested enterprises is 25% commencing from 1 January 2008 with certain exceptions.

In order to clarify certain provisions in the *EIT Law*, the State Council promulgated the Implementation Rules of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (the "**EIT Implementation Rules**") on 6 December 2007, which became effective on 1 January 2008. Under the EIT Law and the EIT Implementation Rules, enterprises are classified as either "resident enterprises" or "non-resident enterprises". Pursuant to the EIT Law and the EIT Implementation Rules, besides enterprises established within the PRC, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and subject to the uniform 25% enterprise income tax rate for their global income. In addition, the EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose "de facto management bodies" are not within the PRC but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC.

Enterprises that are recognised as high-tech enterprises in accordance with the Administrative Measures on Accreditation of High-tech Enterprises (《高新技術企業認定管理辦法》) are entitled to enjoy the preferential enterprise income tax rate of 15%. The validity period of the high-tech enterprise qualification shall be three years from the date of issuance of the

certificate of high-tech enterprise. The enterprise can re-apply for such recognition as a high-tech enterprise before or after the previous certificate expires.

Withholding Income Tax and Tax Treaties

The EIT Implementation Rules provide that since 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident enterprise investors that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. The income tax on the dividends may be reduced pursuant to a tax treaty between the PRC and the jurisdictions in which our non-PRC shareholders reside. Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷稅漏稅的安排》) (the "**Double Tax Avoidance Arrangement**"), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority having satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) issued on 20 February 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and, based on the Announcement of the State Administration of Taxation on Issue Relating to "Beneficial Owner" in Tax Treaties (《關於稅收協定中"受益所有人"有關問題的公告》), on 3 February 2018 by the SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognised as beneficial owners and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

Value-added Tax

Pursuant to the Interim Regulations on Value-Added Tax (hereinafter referred as VAT) of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on 13 December 1993, amended on 10 November 2008, 6 February 2016 and 19 November 2017 respectively, and the Implementation Rules of the PRC Interim Regulations on VAT (《中華人民共和國增值稅暫行條例實施細則》) promulgated by the Ministry of Finance of the PRC (the "**MOF**") on 25 December 1993, amended on 15 December 2008 and 28 October 2011, respectively, the latest amendment of which became effective on 1 November 2011, sale of goods, provision of processing, repair and replacement services and import of goods within the PRC are subject to VAT and unless stated otherwise, the tax rate for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in China shall be 17%. According to Notice of the MOF and the SAT on the Adjustment to VAT Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》), recently promulgated on 4 April 2018 and

implemented on 1 May 2018, the deduction rate of 17% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16%.

On 23 March 2016, the MOF and the SAT released the Circular on the Nationwide Implementation of Transformation Pilot Programme of VAT in Lieu of Business Tax (《財政部、國家税務總局關於全面推開營業税改徵增值税試點的通知》) and its appendices, which confirms that business tax would be completely replaced by VAT from 1 May 2016.

LABOUR AND SOCIAL INSURANCE

Pursuant to the Labour Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the SCNPC on 5 July 1994 and became effective on 1 January 1995 and subsequently amended on 27 August 2009, the PRC Labour Contract Law (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on 29 June 2007 and subsequently amended on 28 December 2012 and became effective on 1 July 2013, and the Implementing Regulations of the Labour Contracts Law of the PRC (《中華人民共和國勞動合同法實施條例》), which was promulgated by the State Council and became effective on 18 September 2008, labour contracts in written form shall be executed to establish labour relationships between employers and employees. Wages cannot be lower than local minimum wage. The employer must establish a system for labour safety and sanitation, strictly abide by State rules and standards, provide education regarding labour safety and sanitation to its employees, provide employees with labour safety and sanitation conditions and necessary protection materials in compliance with State rules, and carry out regular health examination for employees engaged in work involving occupational hazards.

Under applicable PRC laws, including the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on 28 October 2010 and became effective on 1 July 2011, the Interim Regulations on the Collection and Payment of Social Security Funds (《社會保險費徵繳暫行條例》), which was promulgated by the State Council and became effective on 22 January1999, the Interim Measures concerning the Maternity Insurance (《企業職工生育保險試行辦法》),which was promulgated by the Ministry of Labour on 14 December 1994 and became effective on 1 January 1995, the Regulations on Occupational Injury Insurance (《工傷保險條例》), which was promulgated by the State Council on 27 April 2003 and became effective on 1 January 2004 and subsequently amended on 20 December 2010, becoming effective on 1 January 2011, and the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), which was promulgated by the State Council and became effective on 3 April 1999 and amended on 24 March 2002, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity insurance and to housing provident funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

FOREIGN EXCHANGE

The Administrative Regulations on Foreign Exchange of the PRC (《中華人民共和國外匯管理條例》) (the "**Foreign Exchange Administrative Regulations**"), promulgated by the State Council on 29 January 1996 and amended on 14 January 1997 and 5 August 2008, constitute an important legal basis for the PRC governmental authorities to supervise and regulate foreign exchange. On 20 June 1996, People's Bank of China (the "**PBOC**") further promulgated the Administrative Provisions on the Settlement, Sales and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (the "**Settlement Provisions**"). Pursuant to the Foreign Exchange Administrative Regulations and the Settlement Provisions, RMB is generally freely convertible to foreign currencies for current account transactions (such as trade and service-related foreign exchange transactions and dividend payments), but not for capital account transactions (such as capital transfer, direct investment, securities investment, derivative products or loans), except where a prior approval from the SAFE and/or its competent local counterparts is obtained. Foreign-invested enterprises in the PRC may, without any approval from the SAFE and/or its competent local counterparts, purchase foreign exchange for dividend distribution, trade or services by providing certain documentary evidence (such as resolutions of the board of directors and certificates of tax payments).

The Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents (《關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的通知》) was promulgated by the SAFE on 11 May 2013, which became effective on 13 May 2013 and some of the provisions were later amended on 27 March 2015. It specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration. Institutions and individuals shall register with SAFE and/or its branches for their direct investment in the PRC. Banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

On 30 March 2015, SAFE released the Notice on the Reform of the Management Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "**SAFE Circular 19**"), which came into force and superseded Notice of State Administration of Foreign Exchange on Improving Business Operational Issues relating to Administration of Sale of Foreign Currency for Payment of Foreign Currency Capital Funds of Foreign Investment Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》, the "**SAFE Circular 142**") from 1 June 2015. The SAFE Circular 19 provides that the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC.

On 9 June 2016, SAFE further promulgated the Circular on the Reform and Standardization of the Management Policy of the Settlement of Capital Projects (《關於改革和規範資本項目結匯管理政策的通知》) (the "**SAFE Circular 16**"). SAFE Circular 19 has made certain adjustments

to some regulatory requirements on the settlement of foreign exchange capital of foreign-invested enterprises, and some foreign exchange restrictions under SAFE Circular 142 are expected to be lifted. Under SAFE Circular 19 and SAFE Circular 16, the settlement of foreign exchange capital by foreign invested enterprises shall be governed by the policy of foreign exchange settlement at will. However, SAFE Circular 19 and SAFE Circular 16 also reiterate that the settlement of foreign exchange shall only be used for purposes within the business scope of the foreign invested enterprises and following the principles of authenticity. Considering that SAFE Circular 19 and SAFE Circular 16 are relatively new, it is unclear how they will be implemented and there exist high uncertainties with respect to their interpretation and implementation by authorities.

SAFE CIRCULAR 37

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "**SAFE Circular 37**") on 4 July 2014, which replaced the former circular commonly known as "**SAFE Circular 75**" promulgated by SAFE on 21 October 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle". SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfil the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under the PRC law for evasion of foreign exchange controls. On 13 February 2015, SAFE released the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the "**SAFE Circular 13**"), which became effective from 1 June 2015. According to SAFE Circular 13, local banks shall examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration under SAFE Circular 37.

INTELLECTUAL PROPERTY

China is a party to several international conventions on intellectual property rights, including Agreement on Trade-Related Aspects of Intellectual Property Rights (《與貿易有關的知識產權協議》), Paris Convention for the Protection of Industrial Property (《保護工業產權巴黎公約》), Berne Convention for the Protection of Literary and Artistic Works (《保護文學和藝術作

品伯爾尼公約》), World Intellectual Property Organization Copyright Treaty (《世界知識產權組織版權公約》), Madrid Agreement Concerning the International Registration of Marks (《商標國際註冊馬德里協議》) and Patent Cooperation Treaty (《專利合作公約》).

Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) (the "**Patent Law**"), promulgated by the SCNPC on 12 March 1984 with effect from 1 April 1985, amended on 4 September 1992, 25 August 2000 and 27 December 2008 and the Implementation Rules of the Patent Law of the PRC (《中華人民共和國專利法實施細則》), promulgated by the State Council on 15 June 2001 and latest amended on 9 January 2010, there are three types of patent in the PRC: invention patent, utility model patent and design patent. The protection period is 20 years for invention patent and 10 years for utility model patent and design patent, commencing from their respective application dates. Any individual or entity that utilises a patent or conducts any other activity in infringement of a patent without prior authorization of the patentee shall pay compensation to the patentee and is subject to a fine imposed by relevant administrative authorities and, if constituting a crime, shall be held criminally liable in accordance with the law.

Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) (the "**Trademark Law**"), promulgated by the SCNPC on 23 August 1982, amended on 22 February 1993, 27 October 2001 and 30 August 2013, the period of validity for a registered trademark is 10 years, commencing from the date of registration. Upon expiry of the period of validity, the registrant shall go through the formalities for renewal within twelve months prior to the date of expiry as required if the registrant needs to continue to use the trademark. Where the registrant fails to do so, a grace period of six months may be granted. The period of validity for each renewal of registration is 10 years, commencing from the day immediately after the expiry of the preceding period of validity for the trademark. In the absence of a renewal upon expiry, the registered trademark shall be cancelled. Industrial and commercial administrative authorities have the authority to investigate any behaviour in infringement of the exclusive right under a registered trademark in accordance with the law. In case of a suspected criminal offence, the case shall be timely referred to a judicial authority and decided according to law.

ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), promulgated by the SCNPC on 26 December 1989 and amended on 24 April 2014, the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), promulgated by the SCNPC on 28 October 2002 and became effective on 1 September 2003 and was amended on 2 July 2016, the Administrative Regulations on the Environmental Protection of Construction Project (《建設項目環境保護管理條例》), promulgated by the State Council and became effective on 29 November 1998 and amended on 16 July 2017, and other relevant environmental laws and regulations, entities generating environmental pollution and other public

hazards must incorporate environmental protection measures into their plans and set up a responsibility system of environmental protection.

Relevant authorities have the authority to impose penalties on individuals or entities breaching environmental regulations. The penalties that can be imposed include issuing a warning, the suspension of operation of pollution prevention facilities for construction projects where such facilities are uncompleted or fail to meet the prescribed requirements but are put into operation, the reinstallation of pollution prevention facilities which have been dismantled or left idle, administrative sanctions against the office-in-charge, the suspension of business operations or the shut-down of an enterprise or public institution. Fines could also be imposed together with these penalties.

Air Pollution

According to the Law of the PRC on the Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》), effective on 1 June 1988 and amended on 29 August 1995, 29 April 2000, 29 August 2015 and 26 October 2018, respectively, construction, renovation and expansion projects which discharge air pollutants shall comply with regulations regarding environmental protection of construction projects. The environmental impact assessment report regarding a construction project, which is subject to the approval of the environmental protection administrative authorities, shall include an assessment on the air pollution the project is likely to produce and its potential impact on the ecological environment. No construction projects may be put into operation before adequate facilities for prevention and control of air pollution have been inspected and accepted by the environmental protection administrative authorities. Construction projects which have an impact on the atmospheric environment shall conduct the environmental impact assessment, and that discharge of pollutants to the atmosphere shall conform to the atmospheric pollutant discharge standards and abide by the total quantity control requirements for the discharge of key atmospheric pollutants.

Water Pollution

According to the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) effective on 1 November 1984 and amended on 15 May 1996, 28 February 2008 and 27 June 2017, construction, renovation and expansion projects and other water facilities that directly or indirectly discharge pollutants are subject to environmental impact assessment. In addition, water pollution prevention facilities are required to be designed, constructed and put into operation simultaneously with the main part of the project. No construction projects may be put into operation until the relevant environmental protection administrative authorities inspect and accept their water pollution prevention facilities.

Solid Waste

The Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), effective on 1 April 1996 and latest amended on 7 November 2016, stipulates that construction projects where solid waste are

generated or projects for storage, utilisation or disposal of solid waste shall be subject to environmental impact assessment. Facilities for the prevention and control of solid waste are required to be designed, constructed and put into use or operation simultaneously with the main part of the construction project. No construction projects may be put into operation before its facilities for the prevention and control of solid waste have been inspected and accepted by the environmental protection administrative authorities.

Pollutant Discharge

The Environmental Protection Law of the PRC stipulates that the government shall implement the pollutant emission licence administration system. Pollutant discharge by enterprises, public institutions and other producers and business operators is subject to relevant pollutant emission licence. The Environmental Protection Law of the PRC requires any entity operating a facility that produces pollutants or other hazardous materials to adopt environmental protection measures in its operations, and to establish an environmental protection responsibility management system. Effective measures to control and properly dispose of exhaust gas, waste water, waste residue, dust or other waste materials shall be adopted. Any entity operating a facility that discharges pollutants shall report to and register with the competent authority pursuant to applicable regulations. According to the Environmental Protection Law of the PRC, in the event that an entity discharges pollutants in violation of the pollutant discharge standards or volume control requirement, the entity would be subject to administrative penalties, including order to suspend business for rectification, and even order to terminate or close down business under severe circumstances.

According to the Interim Provisions on the Administration of Pollutant Discharge Permits (《排污許可證管理暫行規定》), promulgated on 23 December 2016, Pollutant Discharge Permits shall indicate the location and amount of drain outlets, pollutant type, pollutant discharge quantity, etc. The valid term for the initial issue is three years and for the subsequent renewal is five years and the permit holder shall apply for the renewal 30 days prior to the expiry date.

According to the Announcement of Publishing Four National Pollutants Discharge Standards including the Discharge Standard of Waste Water of Textile, Dyeing and Finishing Industry (《關於發佈〈紡織染整工業水污染物排放標準〉等四項國家污染物排放標準的公告》) released by the Environmental Protection Department (the "**EPD**") on 19 October 2012, the revised Discharge Standard of Waste Water of Textile, Dyeing and Finishing Industry (《紡織染整工業水污染物排放標準》) became effective on 1 January 2013. This standard stipulates the emission limits, monitoring and surveillance requirements of water pollutants generated in the production of textile, dyeing and finishing enterprises and is granted the effectiveness of forcible execution. Some of the provisions were later amended by the EPD on 27 March 2015.

OVERSEAS INVESTMENT

Pursuant to the Administration Measures of Overseas Investment (《境外投資管理辦法》), promulgated by the MOFCOM on 6 September 2014 and became effective on 6 October 2014, overseas investments refer to the ownership of non-financial enterprises abroad or acquisition of

the ownership of, control over, business management right of, or other rights and interests of existing overseas non-financial enterprises by enterprises established in the PRC through new establishment or mergers and acquisitions or other methods. Other than the overseas investments involving sensitive countries, regions or sensitive industries which are subject to approval, all other overseas investments are subject to filing administration.

According to the Administrative Measures for the Outbound Investment by Enterprises (《企業境外投資管理辦法》) promulgated by the NDRC on 26 December 2017 and effected on 1 March 2018, projects subject to filing are non-sensitive projects directly carried out by investors, namely the non-sensitive projects involving the direct investment of assets and equities or the provision of financing or guarantees. For a project requiring filing, the authority in charge of filing is (i) NDRC, if the investor is a centrally administered enterprise (a centrally administered financial enterprise or an enterprise directly subordinate to the administration by the State Council or its subordinate organ, the same below); (ii) NDRC, if the investor is a local enterprise and the amount of Chinese investment is USD0.3 billion or above; and (iii) the provincial development and reform authority at the place where the investor is registered, if the investor is a local enterprise and the amount of Chinese investment is less than USD0.3 billion. The non-sensitive projects mentioned in these Measures refer to the projects irrelevant to sensitive countries or regions, and irrelevant to sensitive industries. The amount of Chinese investment mentioned in these Measures refers to the sum of such assets and equities as currencies, securities, physical objects, technologies, intellectual properties, equities, creditors' rights, and the total amount of the provided financing and guarantees. For the purpose of these Measures, "the provincial development and reform authority at the place where an investor is registered" refers to the development and reform authority of a province, autonomous region, a municipality directly under the PRC Government, a city of independent planning status, or Xinjiang Production and Construction Corps.

IMPORT AND EXPORT OF GOODS

According to the Administrative Provisions on the Registration of Customs Declaration Entities of the PRC (《中華人民共和國海關報關單位註冊登記管理規定》), which was promulgated by the General Administration of Customs of the PRC on 13 March 2014, amended on 20 December 2017, 29 May 2018, and became effective on 1 July 2018, import and export of goods shall be declared by the consignor or consignee itself, or by a customs declaration enterprise entrusted by the consignor or consignee and duly registered with the customs authority. Consignors and consignees of imported and exported goods shall go through customs declaration entity registration formalities with the competent customs departments in accordance with the applicable provisions. After completing the registration formalities with the departments, consignors and consignees of the imported and exported goods may handle their own customs declarations at customs ports or localities where customs supervisory affairs are concentrated within the customs territory of the PRC.

OVERVIEW

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 1 September 2017. Pursuant to the Reorganisation as more particularly described in the paragraph headed "Reorganisation" in this section, our Company has become the holding company of our Group for the purpose of the Listing and holds the entire interests of five subsidiaries, namely, Autumn Sky, Hengye Development, Huzhou Narnia, Narnia International and Changxing Seashore.

BUSINESS DEVELOPMENT

Our history can be traced back to 2002 when Mr. Dai and his business partners, all of whom are Independent Third Parties, set up Huzhou Narnia in Changxing County, the PRC, with their personal funds. Throughout the years, Mr. Dai and Ms. Song have been using their personal funds (including their personal savings and funds received from their families) to fund the establishment of Huzhou Narnia and their capital contributions to Huzhou Narnia. Since its establishment, Huzhou Narnia has been engaging in textile manufacturing, printing and dyeing in the PRC, and Mr. Dai has been participating in the day-to-day management of Huzhou Narnia since its establishment. For details of Mr. Dai's background and experience, please refer to the section headed "Directors and Senior Management – Directors – Executive Directors" in this prospectus.

As our business expanded, Huzhou Narnia had merged with two other companies engaging in textile manufacturing in July 2003 and July 2008, and with a company engaging in the development and testing of textile products in August 2009. In May 2015, Huzhou Narnia through Narnia International acquired the entire equity interest of Changxing Seashore, which engages in textile manufacturing.

Since the establishment of our Group in 2002, we have been focusing on research and development of functional polyester fabrics, production technique and dyeing methods. As at the Latest Practicable Date, we have registered 13 patents in respect of, among others, textile dyeing equipment and fabrics with advanced features and additional functional properties. With our continuous innovation, we strive to achieve a leading position in the industry.

The key milestones in our Group's development to date are set out below.

Year	Events
August 2002	We established Huzhou Narnia as our principal operating entity, which engages in the business of textile manufacturing, printing and dyeing and set up our production facilities in Jiapu Economic Development Area.
July 2003	We merged with Changxing Hengye Textile Co., Ltd.* (長興恆燁紡織品有限公司) ("**Changxing Hengye**").

Year	Events
July 2008	We merged with Changxing Shilihe Textile Co., Ltd.* (長興時利和紡織品有限公司) ("**Changxing Shilihe**").
August 2009	We merged with Changxing Zhongheng Textile Development and Testing Co., Ltd.* (長興中恒紡織品研發檢測有限公司) ("**Changxing Zhongheng**").
April 2014	Huzhou Narnia was first awarded the ISO 9001:2008 quality management system certification and the ISO 14001:2004 environmental management system certificate by the Beijing Zhongjing Quality Certification Co., Ltd. (北京中經科環質量認證有限公司)
October 2014	Huzhou Narnia was first recognised as a High and New Technology Enterprise* (高新技術企業) by Science and Technology Department of Zhejiang Province* (浙江省科學技術廳), Zhejiang Provincial Department of Finance* (浙江省財政廳), Zhejiang Provincial State Taxation Bureau* (浙江省國家税務局) and Zhejiang Local Taxation Bureau* (浙江省地方税務局) of the PRC.
December 2014	Huzhou Narnia was awarded the Zhejiang Province Technology-based Small to Medium Enterprise Certificate* (浙江省科技型中小企業證書) by the Science and Technology Department of Zhejiang Province* (浙江省科學技術廳).
May 2015	We acquired the entire equity interest of Changxing Seashore to cope with our business expansion.
April 2016	Huzhou Narnia was listed on the NEEQ.
June 2017	Our laboratory was recognised as a Province-level Industrial Design Centre* (浙江省省級工業設計中心) by the Economy and Information Commission of Zhejiang Province* (浙江省經濟和信息化委員會).
October 2018	Huzhou Narnia was listed as one of the Textile Manufacturing Industry "Double Innovation" Platform Model Construction* (紡織製造業「雙創」平台示範建設) by the Economy and Information Commission of Zhejiang Province (浙江省經濟和信息化委員會).

Year	Events
November 2018	Huzhou Narnia was recognised as one of the Huzhou City Four-star Green Factory* (湖州市四星級綠色工廠) by Huzhou City Create "Made in China 2025" Pilot Model City Leadership Group Office* (湖州市創建「中國製造2025」試點示範城市領導小組辦公室).

CORPORATE DEVELOPMENT

The following is a brief corporate history of the establishment and major changes in the shareholdings of our Company's subsidiaries since their respective date of incorporation:

Autumn Sky

Autumn Sky was incorporated in the BVI with limited liability on 16 October 2017. It is authorised to issue a maximum of 50,000 shares of a single class with a par value of US$1 each. It principally engages in investment holding.

On 16 October 2017, Autumn Sky allotted and issued 50,000 shares with a par value of US$1 each credited as fully paid to our Company. All the issued shares of Autumn Sky then became wholly owned by our Company.

Hengye Development

Hengye Development, formerly known as Huawei Development Limited, was incorporated in Hong Kong with limited liability on 30 October 2017. It principally engages in investment holding.

On the date of its incorporation, Hengye Development allotted and issued 10,000 founder member's shares credited as fully paid to Autumn Sky. The entire share capital of Hengye Development then became wholly owned by Autumn Sky.

Huzhou Narnia

Huzhou Narnia was formerly known as (i) Changxing Hengxin Textiles Printing & Dyeing Co., Ltd.* (長興恆鑫紡織印染有限公司) for the period from its date of establishment to July 2003, (ii) Zhejiang Hengxin Textiles Printing & Dyeing Co., Ltd.* (浙江恆鑫紡織印染有限公司) for the period from July 2003 to August 2011 and (iii) Huzhou Narnia Industry Inc.* (湖州納尼亞實業股份有限公司) for the period from August 2011 to September 2017. It was established in the PRC as a limited liability company on 5 August 2002 with an initial registered capital of RMB2,000,000. Huzhou Narnia principally engages in textile manufacturing, printing and dyeing in the PRC. At the time of its establishment, Mr. Dai contributed RMB1,400,000 and three Independent Third Parties (namely Mr. Zang Yulin (臧玉林先生), Mr. Jiang Zeming (蔣澤明先生) and Mr. Ji Jingen (姬金根先生)) each contributed RMB200,000. Mr. Dai then owned 70% of

the equity interest of Huzhou Narnia and the other shareholders each owned 10% of the equity interest of Huzhou Narnia.

In July 2003, in order to expand its business, Huzhou Narnia merged with Changxing Hengye and the registered capital of Huzhou Narnia was increased to RMB10,850,000. The additional registered capital was contributed as to RMB550,000 by the original registered capital of Changxing Hengye and RMB8,300,000 by way of a parcel of land in the Jiapu Economic Development Area, property erected thereon and machines. Before the said merger, Mr. Dai and Ms. Song held a total of 95% of the equity interest of Changxing Hengye. When Changxing Hengye was established in June 2001, Ms. Song and Mr. Wang Yuliang (王玉良先生) contributed RMB449,900 and RMB100,100, respectively. Ms. Song and Mr. Wang Yuliang then owned 81.8% and 18.2% of the equity interest in Changxing Hengye, respectively. Mr. Dai later acquired a total of 43.5% of the equity interest in Changxing Hengye from Ms. Song and Mr. Wang Yuliang in October 2002. Changxing Hengye was dissolved by deregistration in July 2003 after Changxing Hengye merged with Huzhou Narnia. Upon completion of the said merger, Mr. Dai and Ms. Song owned 60% and 10% of the equity interest of Huzhou Narnia, respectively. In December 2006, Huzhou Narnia further increased its registered capital to RMB13,850,000 and was fully paid up.

In July 2008 and August 2009, Huzhou Narnia merged with Changxing Shilihe and Changxing Zhongheng, respectively. At the material times, Changxing Shilihe and Changxing Zhongheng were owned as to 90% by Changxing Hengli Investment, which was jointly owned by Mr. Dai and Ms. Song. Changxing Shilihe was established in September 2003 and Changxing Zhongheng was established in March 2006. Changxing Hengli Investment acquired 90% of the equity interest in Changxing Shilihe and Changxing Zhongheng in March 2008 and December 2007, respectively. Changxing Shilihe and Changxing Zhongheng was dissolved by deregistration in July 2008 and August 2009 respectively after they merged with Huzhou Narnia. Upon completion of the said mergers, the registered capital of Huzhou Narnia was increased to RMB23,075,610 and was fully paid up. Such additional registered capital was contributed as to RMB8,225,610 from the original registered capital of Changxing Shilihe and RMB1,000,000 from the original registered capital of Changxing Zhongheng.

Subsequent to a series of capital contributions and equity transfers by the shareholders of Huzhou Narnia which took place between December 2009 and June 2011, the registered capital of Huzhou Narnia was increased to RMB101,850,000 as at 3 June 2011 where Changxing Hengli Investment, Mr. Dai and Ms. Song owned 85%, 10% and 5% of the equity interest in Huzhou Narnia, respectively.

In August 2011, Huzhou Narnia was converted from a limited liability company into a company limited by shares with a registered capital of RMB101,850,000 divided into 101,850,000 shares of RMB1 each. From April 2016 to August 2017, Huzhou Narnia was listed on the NEEQ, during which Ms. Wang Yun, Mr. Zhang Weiming, Ms. Fang Fang, Ms. Zhang Yuzhen, Ms. Yu Aidi, Ms. Chen Jiao, Ms. Zhang Miaofen and Ms. Wu Aixia acquired shares of Huzhou Narnia. For details of the delisting, please refer to the paragraph headed "Prior Quotation on the NEEQ and Delisting" in this section. Immediately after Huzhou Narnia was

delisted from NEEQ, Huzhou Narnia was owned by following persons and their respective percentage of interest in Huzhou Narnia was as follows:

Name of shareholders	Approximate percentage of interest	Date of becoming shareholder
Changxing Hengli Investment	63.81%	July 2008
Mr. Dai	10.00%	August 2002
Ms. Wang Yun	6.70%	August 2016
Mr. Zhang Weiming	5.60%	August 2016
Ms. Song	5.00%	July 2003
Ms. Fang Fang	4.91%	December 2016
Ms. Zhang Yuzhen	1.32%	December 2016
Ms. Yu Aidi	0.70%	September 2016
Ms. Chen Jiao	0.66%	September 2016
Ms. Zhang Miaofen	0.65%	December 2016
Ms. Wu Aixia	0.65%	December 2016
Total	100.00%	

Subsequently, Huzhou Narnia was reconverted into a limited liability company in September 2017. In September 2017, Mr. Dai entered into an equity transfer agreement with Skyhope, a limited company incorporated under the laws of Hong Kong and wholly owned by Ms. Dong Yi Ping, pursuant to which Skyhope agreed to purchase 1% equity interest in Huzhou Narnia from Mr. Dai, at a consideration of RMB1,189,700 which was determined based on the valuation conducted by an independent valuer. Such transfer was fully settled by Skyhope using Ms. Dong Yi Ping's own financial resources. Upon completion of the registration of the equity transfer by the Changxing Economic and Technological Development Area Management Committee* (長興經濟技術開發區管理委員會) ("**Changxing ETDAMC")** on 28 October 2017, Huzhou Narnia became a sino-foreign equity joint venture and was owned by the following persons and their respective contributions to the registered capital of Huzhou Narnia were as follows:

Name of shareholders	Capital contribution *(RMB)*	Approximate equity interest
Changxing Hengli Investment	64,987,500	63.81%
Mr. Dai	9,166,500	9.00%
Ms. Wang Yun	6,822,000	6.70%
Mr. Zhang Weiming	5,700,000	5.60%
Ms. Song	5,092,500	5.00%
Ms. Fang Fang	5,000,000	4.91%
Ms. Zhang Yuzhen	1,350,000	1.32%
Ms. Yu Aidi	710,000	0.70%
Ms. Chen Jiao	676,000	0.66%
Ms. Zhang Miaofen	667,000	0.65%
Ms. Wu Aixia	660,000	0.65%
Skyhope	1,018,500	1.00%
Total	101,850,000	100.00%

In April 2018, Huzhou Narnia reduced its registered capital to RMB66,850,000 and the equity ownership of Huzhou Narnia remained unchanged immediately after the capital reduction.

On 20 April 2018, as part of the Reorganisation, Hengye Development acquired the entire equity interest in Huzhou Narnia from the above shareholders. Upon completion of the registration by Changxing ETDAMC on 10 May 2018, Huzhou Narnia became wholly owned by Hengye Development. Such transaction was properly and legally completed and settled on 21 June 2018.

Narnia International

Narnia International was incorporated in Hong Kong with limited liability on 25 July 2013. It principally engages in investment holding.

On the date of its incorporation, Narnia International allotted and issued 1,850,000 founder member's shares for a total consideration of US$1,850,000 as fully paid to Huzhou Narnia. On 22 April 2015, Narnia International further allotted and issued 6,150,000 ordinary shares as fully paid to Huzhou Narnia. Since its incorporation, the entire share capital of Narnia International has been wholly owned by Huzhou Narnia.

Changxing Seashore

Changxing Seashore was established in the PRC on 23 October 2012 as a limited liability company with a registered share capital of US$8,000,000. It principally engages in textile manufacturing in the PRC.

At the time of its establishment, the entire equity interest of Changxing Seashore was held by Mr. Hu Dong, an Independent Third Party. In May 2015, Narnia International acquired the entire equity interest in Changxing Seashore from Mr. Hu Dong at a consideration of US$8,000,000. Changxing Seashore then became wholly owned by Narnia International.

ACTING IN CONCERT UNDERTAKING

Pursuant to the Acting in Concert Undertaking, Mr. Dai and Ms. Song undertake to act in concert in respect of all corporate matters relating to the operations of our Group during the period they (by themselves or together with their associates) remain in control of our Group. By virtue of the Acting in Concert Undertaking, Mr. Dai and Ms. Song will together be entitled to exercise and control approximately 59.11% of the entire issued share capital upon the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme).

PRIOR QUOTATION ON THE NEEQ AND THE DELISTING

In April 2016, 101,850,000 shares in Huzhou Narnia, being the entire issued share capital at that time, became quoted on the NEEQ (stock code: 837131). On 12 July 2017, all the shareholders of Huzhou Narnia resolved to voluntarily delist Huzhou Narnia's shares from the NEEQ (the "**NEEQ Delisting**") at a general meeting. For reasons of the NEEQ Delisting, please refer to the paragraph headed "Reasons for Seeking the Listing on the Stock Exchange" in this section below. The NEEQ Delisting was approved by shareholders holding 100% of Huzhou Narnia's total shares (being 101,850,000 shares) entitled to vote on the matter. On 3 August 2017, the regulatory body approved the NEEQ Delisting. On 7 August 2017, the shares of Huzhou Narnia ceased to be quoted on the NEEQ with a market capitalisation of approximately RMB483,787,500, based on the closing price of the last trading day before the NEEQ Delisting, being 7 July 2017, of RMB4.75 per share.

Our Directors confirm that, to the best of their knowledge and belief, (i) Huzhou Narnia had been in compliance with all applicable PRC securities laws and regulations as well as rules and regulations of the NEEQ in all material respects, and had not been subject to any disciplinary actions by the relevant regulators, during the period when its shares were quoted on the NEEQ and up to the NEEQ Delisting; and (ii) there are no further matters in relation to the prior listing of Huzhou Narina that need to be brought to the attention of the Stock Exchange or our Shareholders.

REASONS FOR SEEKING THE LISTING ON THE STOCK EXCHANGE

Our Directors believe that the Listing will be in the interests of our Group's business development strategies, and would be beneficial to us and our Shareholders as a whole for the following reasons:

(1) The NEEQ is a market in the PRC open to qualified investors only, including (a) PRC corporate or partnership enterprise investors with paid-up capital of more than RMB5 million; (b) PRC natural persons with average daily financial assets within the latest 10 trading days over RMB5 million and are experienced in investment for more than two years; and (c) qualified PRC and foreign institutional investors, such as securities companies, asset management companies, banks and insurers. In addition, the NEEQ adopts a market maker, negotiated transfer or investor competing transfer trading mechanism rather than continuous auction mechanism, which significantly limits investor discovery and order execution. The nature of the NEEQ and its low trading could make it difficult to (a) identify and establish the fair value of Huzhou Narnia to reflect its competitive strengths which differentiate it from its competitors; (b) publicly raise funds, in equity or debt, to continuously support our business growth; and (c) execute substantial on-market disposals by Shareholders to realise value;

(2) In contrast, the Stock Exchange, as a leading player of the international financial markets, could offer us a direct access to the international capital markets, enhance our fund-raising capabilities and channels and broaden our Shareholders base. Accordingly, the Listing would provide us a viable source of capital to support our business growth;

(3) The Listing would also enable our Company to devise more appealing share incentive plans, which correlates directly to the performance in our Group's business, which in turn would help us to attract and motivate the talents needed to support our rapid growth and enhance our operating efficiency on an ongoing basis; and

(4) a listing on the Stock Exchange will further raise our business profile and thus, enhance our ability to attract new customers, business partners and strategic investors as well as to recruit, motivate and retain key management personnel for our Group's business.

REORGANISATION

Our Group underwent the Reorganisation in preparation for the Listing, which involved the following steps:

Incorporation of Spring Sea and Summer Land

On 14 June 2017, Spring Sea was incorporated in the BVI with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class with a par value of US$1

each. On the date of its incorporation, Spring Sea allotted and issued 26,991 shares and 23,009 shares with a par value of US$1 credited as fully paid to Mr. Dai and Ms. Song, respectively. Spring Sea then became owned as to approximately 53.98% and 46.02% by Mr. Dai and Ms. Song, respectively.

On 5 July 2017, Summer Land was incorporated in the BVI with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class with a par value of US$1 each. Summer Land principally engages in investment holding. As at the Latest Practicable Date, other than holding the investment in our Company, Summer Land had no other business activity and it had no plan to change its principal activity in the near future. The ultimate beneficial owners of Summer Land, namely Ms. Wang Yun, Mr. Zhang Weiming, Ms. Fang Fang, Ms. Zhang Yuzhen, Ms. Yu Aidi, Ms. Chen Jiao, Ms. Zhang Miaofen and Ms. Wu Aixia, were shareholders of Huzhou Narnia prior to the Reorganisation, who acquired their respective shares in Huzhou Narnia and made their investments as individual investors when Huzhou Narnia was listed on NEEQ. Ms. Wang Yun is the daughter of Ms. Song's sister. Ms. Chen Jiao is the daughter of Mr. Dai's sister. Ms. Wang Yun and Ms. Chen Jiao are not parties acting in concert. Other than Ms. Wang Yun and Ms. Chen Jiao and except being the shareholders of Summer Land, the other shareholders of Summer Land are Independent Third Parties. Mr. Zhang Weiming is the brother of Ms. Zhang Miaofen and Ms. Wu Aixia is an employee of Changxing Hengli Financing.

On the date of its incorporation, Summer Land allotted and issued 15,803 shares, 13,203 shares, 11,582 shares, 3,127 shares, 1,645 shares, 1,566 shares, 1,545 shares and 1,529 shares with a par value of US$1 credited as fully paid to Ms. Wang Yun, Mr. Zhang Weiming, Ms. Fang Fang, Ms. Zhang Yuzhen, Ms. Yu Aidi, Ms. Chen Jiao, Ms. Zhang Miaofen and Ms. Wu Aixia, respectively.

Incorporation of our Company

On 1 September 2017, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. As at the date of its incorporation, it had an authorised share capital of US$50,000 divided into 50,000 Shares with a par value of US$1 each.

On the date of its incorporation, our Company allotted and issued one subscriber Share with a par value of US$1 as fully paid to a nominee subscriber. On the same date, the nominee subscriber as transferor executed an instrument of transfer in favour of Spring Sea as transferee, pursuant to which the nominee subscriber transferred the one Share, representing the entire issued share capital of our Company, to Spring Sea for a consideration of US$1. Such transaction was properly and legally completed and settled.

On 1 September 2017, our Company further allotted and issued 39,403 Shares and 10,596 Shares credited as fully paid to Spring Sea and Summer Land, respectively. Our Company then became owned as to approximately 78.81% by Spring Sea and approximately 21.19% by Summer Land.

Incorporation of Autumn Sky

On 16 October 2017, Autumn Sky was incorporated in the BVI with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class with a par value of US$1 each. On the date of its incorporation, Autumn Sky allotted and issued 50,000 shares with a par value of US$1 each credited as fully paid to our Company. All the issued shares of Autumn Sky then became wholly owned by our Company.

Incorporation of Hengye Development

On 30 October 2017, Hengye Development was incorporated in Hong Kong with limited liability. On the date of its incorporation, Hengye Development allotted and issued 10,000 founder member's shares credited as fully paid to Autumn Sky. The entire issued share capital of Hengye Development then became wholly owned by Autumn Sky.

Acquisition of Huzhou Narnia by Hengye Development

On 20 April 2018, the then shareholders of Huzhou Narnia as transferors and Hengye Development as transferee entered into 12 equity transfer agreements, pursuant to which Hengye Development acquired the entire equity interest in Huzhou Narnia from the then shareholders. The consideration of each of the equity transfers was determined based on the valuation conducted by an independent valuer and was fully settled. The details of each of the equity transfers are set forth in the table below:

Date of the equity transfer	Transferor	Transferee	Approximate equity interest	Consideration *(RMB)*
20 April 2018	Changxing Hengli Investment	Hengye Development	63.81%	53,519,294
20 April 2018	Mr. Dai	Hengye Development	9.00%	7,548,907
20 April 2018	Ms. Wang Yun	Hengye Development	6.70%	5,618,136
20 April 2018	Mr. Zhang Weiming	Hengye Development	5.60%	4,694,133
20 April 2018	Ms. Song	Hengye Development	5.00%	4,193,837
20 April 2018	Ms. Fang Fang	Hengye Development	4.91%	4,117,661
20 April 2018	Ms. Zhang Yuzhen	Hengye Development	1.32%	1,111,768
20 April 2018	Ms. Yu Aidi	Hengye Development	0.70%	584,708
20 April 2018	Ms. Chen Jiao	Hengye Development	0.66%	556,708
20 April 2018	Ms. Zhang Miaofen	Hengye Development	0.65%	549,296
20 April 2018	Ms. Wu Aixia	Hengye Development	0.65%	543,531
20 April 2018	Skyhope	Hengye Development	1.00%	838,767

Upon completion of the registration of the above equity transfers by the Changxing ETDAMC on 10 May 2018, Huzhou Narnia became a wholly-owned subsidiary of Hengye Development.

Share sub-division

In contemplation of the Share Offer and the Capitalisation Issue, each issued and unissued Share with par value of US$1 was subdivided into 1,000 Shares with par value of US$0.001 each pursuant to the written resolutions of our Shareholders passed on 29 January 2019. Our Company then remained owned as to approximately 78.81% by Spring Sea and approximately 21.19% by Summer Land immediately after the sub-division of Shares.

COMPANY EXCLUDED FROM OUR GROUP DURING THE REORGANISATION

Prior to the Reorganisation, Huzhou Narnia held approximately 23.34% of the equity interest in a PRC company, namely Changxing Hengli Financing, which principally engaged in providing financing solutions to small enterprises in the PRC.

On 30 March 2018, Huzhou Narnia and an Independent Third Party, namely Changxing Transport Investment Group Co., Ltd.* (長興交通投資集團有限公司) ("**Changxing Transport Investment**"), entered into an equity transfer agreement, pursuant to which Changxing Transport Investment agreed to purchase approximately 23.34% of the equity interest in Changxing Hengli Financing from Huzhou Narnia, being the entire equity interest in Changxing Hengli Financing held by Huzhou Narnia (the "**CHF Disposal**"). The consideration for the sale and purchase was RMB34,950,000, which was determined based on the valuation conducted by an independent valuer. Upon completion of the CHF Disposal, Huzhou Narnia ceased to hold any equity interest in Changxing Hengli Financing.

As (1) our Group has been positioned to focus on textile manufacturing, printing and dyeing in the PRC, (2) the business of Changxing Hengli Financing is not related to our Group's principal business and is unlikely to compete with our Group and (3) there was no transaction between our Group and Changxing Hengli Financing during the Track Record Period and up to the Latest Practicable Date, we decided to exclude Changxing Hengli Financing from our Group during the Reorganisation.

We confirmed that Changxing Hengli Financing was not involved in any material non-compliant incidents, claims, litigation or legal proceedings (whether actual or threatened) during the Track Record Period and up to the date of the CHF Disposal.

DISPOSAL OF SHARES IN CHANGXING RURAL COMMERCIAL BANK

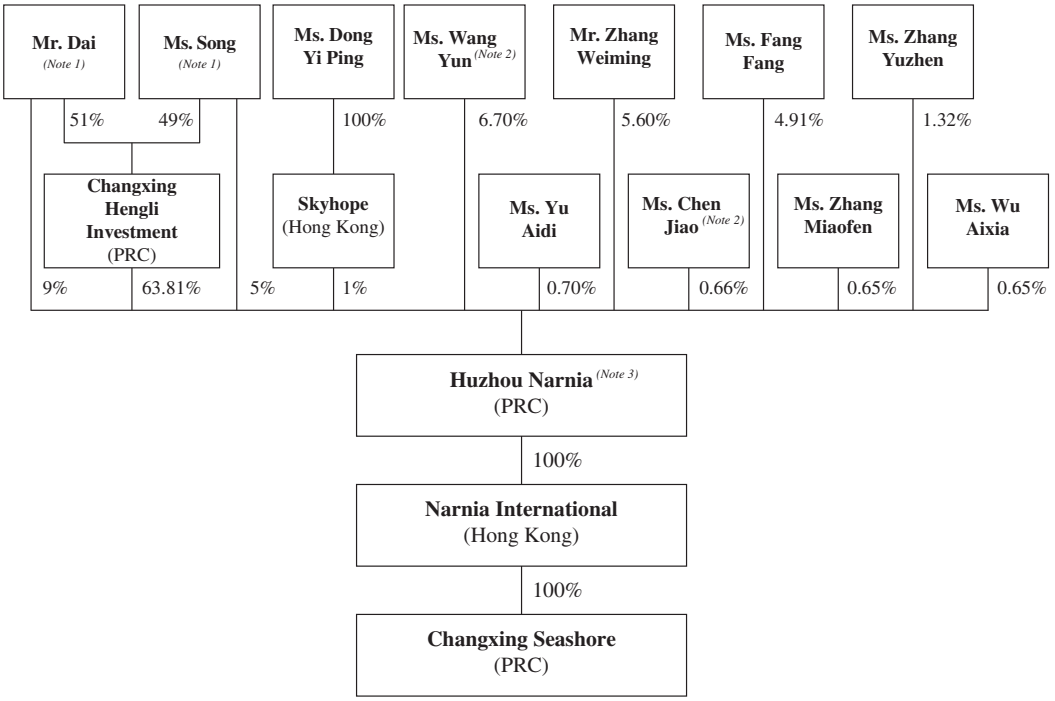
During the Track Record Period, Huzhou Narnia held 7,565,794 shares (representing approximately 1.07% of the total number of shares) in a licenced bank in the PRC, namely Changxing Rural Commercial Bank.

On 18 December 2018, Huzhou Narnia and an Independent Third Party, namely Zhejiang Hongchen Printing and Dyeing Co., Ltd.* (浙江弘晨印染科技股份有限公司) ("**Zhejiang Hongchen**"), entered into a sale and purchase agreement, pursuant to which Zhejiang Hongchen

agreed to purchase 7,565,794 shares (representing approximately 1.07% of the total number of shares) in Changxing Rural Commercial Bank from Huzhou Narnia, being all of the shares in Changxing Rural Commercial Bank held by Huzhou Narnia (the "**CRCB Disposal**"). The consideration for the sale and purchase was RMB20,000,000, which was determined based on the valuation conducted by an independent valuer. Upon completion of the CRCB Disposal, Huzhou Narnia ceased to hold any shares in Changxing Rural Commercial Bank.

As (1) our Group has been positioned to focus on textile manufacturing, printing and dyeing in the PRC and (2) the business of Changxing Rural Commercial Bank is not related to our Group's principal business and is unlikely to compete with our Group during the Track Record Period and up to the Latest Practicable Date, we decided to dispose our entire interest in Changxing Rural Commercial Bank.

The following chart sets forth our approximate shareholding and corporate structure immediately before the Reorganisation:



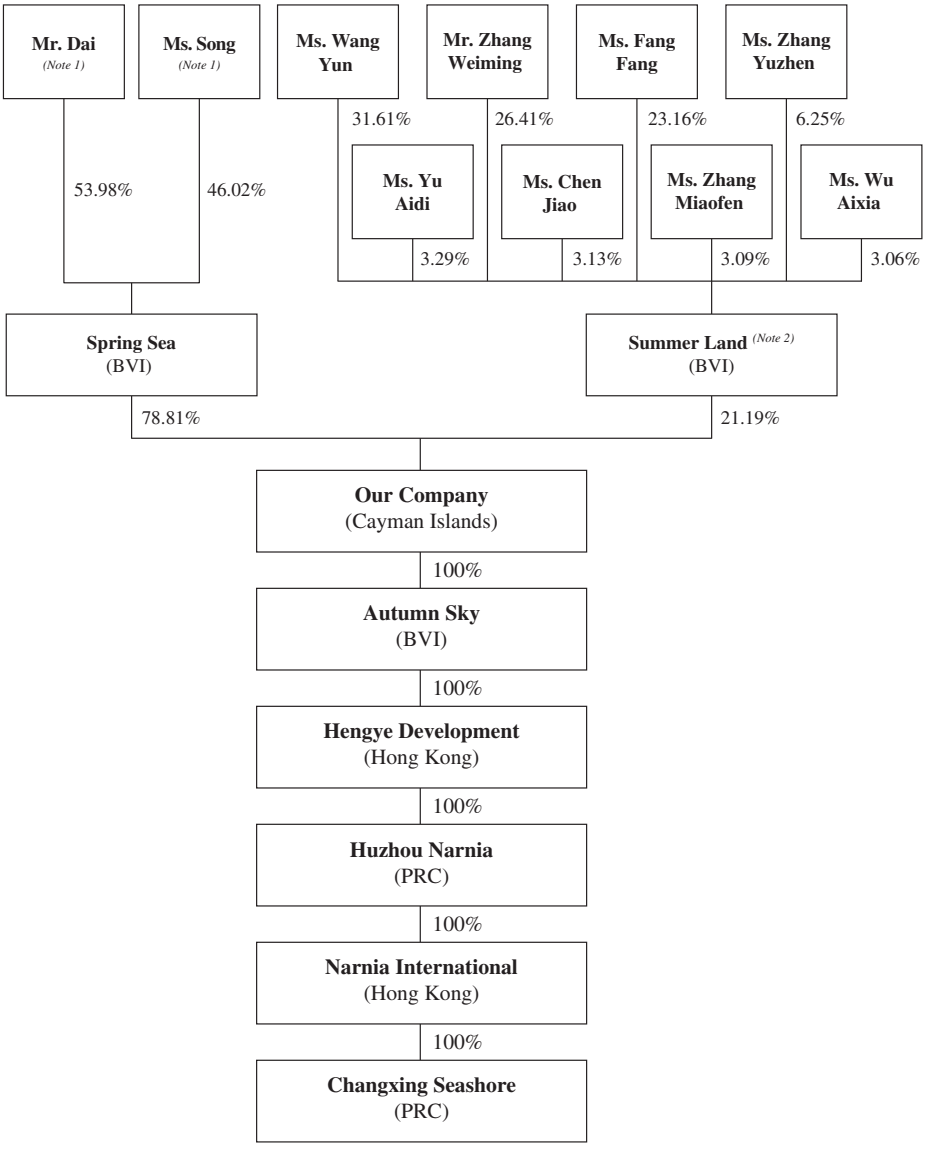
Notes:

1. Mr. Dai and Ms. Song are parties acting in concert pursuant to the Acting in Concert Undertaking.

2. Ms. Wang Yun is the daughter of Ms. Song's sister. Ms. Chen Jiao is the daughter of Mr. Dai's sister. Ms. Wang Yun and Ms. Chen Jiao are not parties acting in concert.

3. Other than Narnia International, Huzhou Narnia also held interests in Changxing Hengli Financing and a licenced bank in the PRC, namely Changxing Rural Commercial Bank. Please refer to the paragraphs headed "Company excluded from our Group during the Reorganisation" and "Disposal of shares in Changxing Rural Commercial Bank" in this section for details.

The following chart sets forth our approximate shareholding and corporate structure immediately after the Reorganisation but before the Share Offer and the Capitalisation Issue:



Notes:

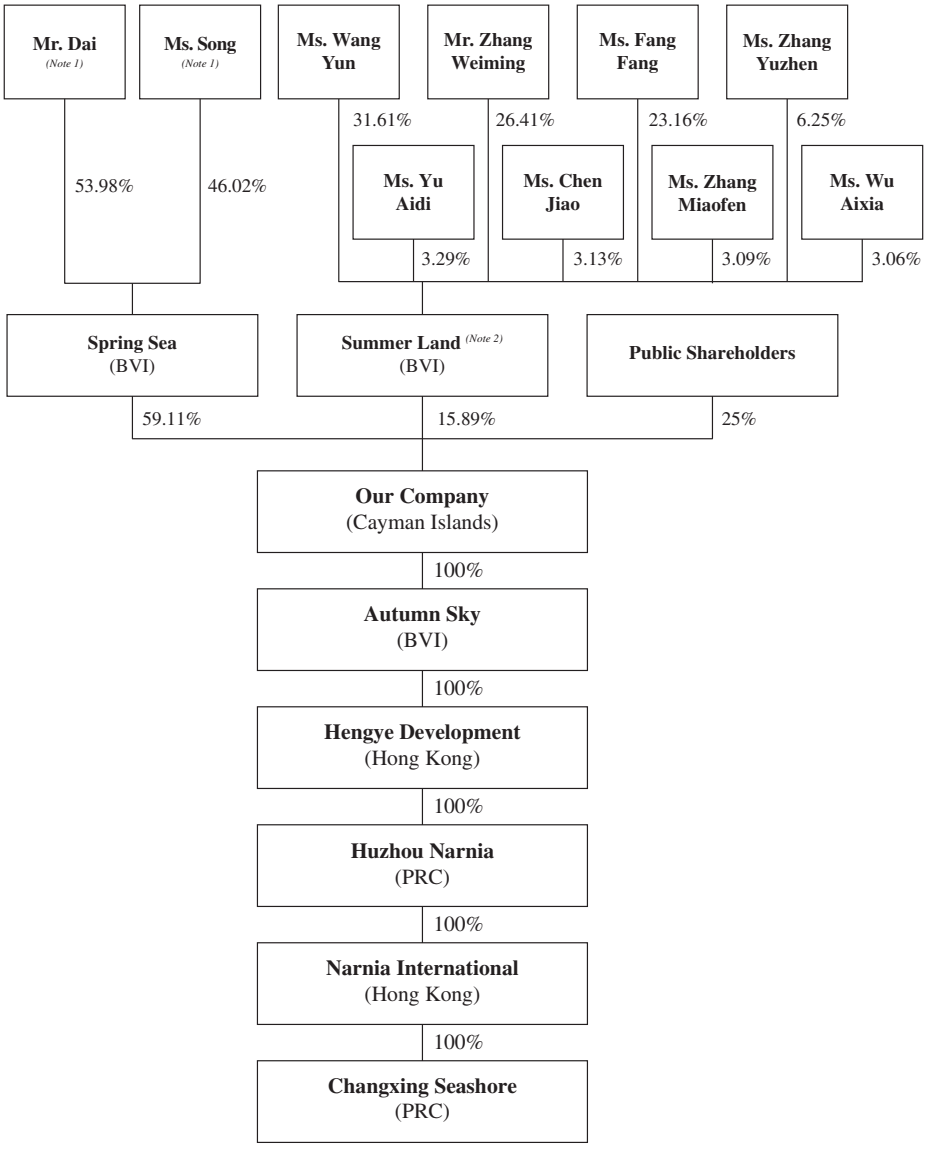
1. Mr. Dai and Ms. Song are parties acting in concert pursuant to the Acting in Concert Undertaking.

2. The shareholders of Summer Land were shareholders of Huzhou Narnia prior to the Reorganisation, who acquired their respective shares in Huzhou Narnia when it was listed on NEEQ. Ms. Wang Yun is the daughter of Ms. Song's sister. Ms. Chen Jiao is the daughter of Mr. Dai's sister. Ms. Wang Yun and Ms. Chen Jiao are not parties acting in concert. Other than Ms. Wang Yun and Ms. Chen Jiao and except being the shareholders of Summer Land, the other shareholders of Summer Land are Independent Third Parties. Mr. Zhang Weiming is the brother of Ms. Zhang Miaofen and Ms. Wu Aixia is an employee of Changxing Hengli Financing.

Capitalisation Issue

Conditional upon the crediting of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Listing, our Directors are authorised to capitalise an amount of US$550,000 standing to the credit of the share premium account of our Company by applying such sum towards to pay up in full at par a total of 550,000,000 Shares for allotment and issue, immediately prior to the Share Offer, to our Shareholders whose names appear on the register of members of our Company as of 29 January 2019, on a pro rata basis.

The following chart sets forth our approximate shareholding and corporate structure immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme):



Notes:

1. Mr. Dai and Ms. Song are parties acting in concert pursuant to the Acting in Concert Undertaking.

2. The shareholders of Summer Land were shareholders of Huzhou Narnia prior to the Reorganisation, who acquired their respective shares in Huzhou Narnia when it was listed on NEEQ. Ms. Wang Yun is the daughter of Ms. Song's sister. Ms. Chen Jiao is the daughter of Mr. Dai's sister. Ms. Wang Yun and Ms. Chen Jiao are not parties acting in concert. Other than Ms. Wang Yun and Ms. Chen Jiao and except being the shareholders of Summer Land, the other shareholders of Summer Land are Independent Third Parties. Mr. Zhang Weiming is the brother of Ms. Zhang Miaofen and Ms. Wu Aixia is an employee of Changxing Hengli Financing.

PRC REGULATORY ISSUES RELATING TO THE REORGANISATION

Compliance with the Regulations for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "M&A Rules")

Under the M&A Rules, a foreign investor is required to obtain approvals from competent authorities when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from the Ministry of Commerce of the PRC ("**MOC**") is required.

As mentioned in the paragraph headed "Huzhou Narnia" in this section, Skyhope acquired 1% equity interest in Huzhou Narnia in October 2017 ("**1% Acquisition**"). As confirmed by our PRC Legal Advisers, all the requisite approvals, permits and licences in relation to the 1% Acquisition had been obtained pursuant to applicable laws and regulations in the PRC and the 1% Acquisition was in compliance with the M&A Rules and had been duly approved by competent regulatory authorities in accordance with the M&A Rules, based on the follows:

(i) the 1% Acquisition do not constitute transactions requiring approvals from the MOC and the China Securities Regulatory Commission ("**CSRC**") under the M&A Rules and the reporting requirement under Article 11 of the M&A Rules does not apply, due to the facts that (a) at the time when the 1% Acquisition took place, Ms. Dong Yi Ping was a holder of Hong Kong Permanent Identity Card and was not a domestic natural person under the M&A Rules; and (b) the 1% Acquisition was not a related acquisition under the M&A Rules;

(ii) the revised business licence of Huzhou Narnia was issued by the Administration for Industry and Commerce of Huzhou (湖州市工商行政管理局) (currently known as the Administration for Market Regulations of Huzhou (湖州市市場監督管理局)) on 23 October 2017, which stated the type of corporation of Huzhou Narnia as "limited liability company (joint venture of Taiwan, Hong Kong, the Macau Special Administrative Region and the PRC) (percentage of foreign investment less than 25%)" (有限責任公司(台港澳與境內合資) (外資比例低於25%));

(iii) on 28 October 2017, the approval regarding the 1% Acquisition and the establishment of Huzhou Narnia as a sino-foreign joint venture enterprise was issued by Changxing ETDAMC, and the relevant approval certificates, stating the type of business (企業類型) as joint venture (合資), were granted by Changxing ETDAMC; and

(iv) Changxing ETDAMC is the competent authority for the approval of the 1% Acquisition under the M&A Rules.

As for the acquisitions of 100% of the equity interest in Huzhou Narnia by Hengye Development in April 2018, our PRC Legal Advisers advised that such acquisitions are transfers of equity interest in foreign invested enterprises as Huzhou Narnia had become sino-foreign joint ventures at the time of the acquisitions, and thus the M&A Rules is not applicable and approval from the MOC and the CSRC is not required. Instead, such acquisitions shall comply with the relevant provisions in the Rules on the Changes of Shareholding of Foreign-invested Enterprise Investor (外商投資企業投資者股權變更的若干規定), Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises (外商投資企業設立及變更備案管理暫行辦法) and Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄) and are subject to approval of the authority approving the establishment of Huzhou Narnia as a sino-foreign joint venture enterprise, i.e. Changxing ETDAMC.

Compliance with the Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents Through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外滙管理有關問題的通知》) ("Circular 37")

As confirmed by our PRC Legal Advisers, Mr. Dai, Ms. Song, Ms. Wang Yun, Mr. Zhang Weiming, Ms. Fang Fang, Ms. Zhang Yuzhen, Ms. Yu Aidi, Ms. Chen Jiao, Ms. Zhang Miaofen and Ms. Wu Aixia, being ultimate individual shareholders of our Company, have completed the foreign exchange registration pursuant to Circular 37.

Our PRC Legal Advisers further confirmed that all necessary approvals, permits and licences required under the PRC laws and regulations in connection with the Reorganisation and equity interests transfer in respect of the PRC subsidiaries in our Group as set out in this section have been obtained, and the Reorganisation has complied with all applicable PRC laws and regulations.

OVERVIEW

We are a long established textile manufacturer and printing and dyeing company in the PRC with over 15 years of experience in the textile industry. We develop polyester fabrics, which is a type of chemical fabrics, with different texture and functions, manufacture our products at our Huzhou Production Facilities and engage in direct sales to our customers. With a view to diversifying our source of revenue, we also engage in the provision of printing and dyeing services in the PRC. Our sales of fabrics and provision of printing and dyeing services respectively accounted for approximately 86.3% and 13.7% of our total revenue for the year ended 31 December 2016, approximately 70.0% and 30.0% of our total revenue for the year ended 31 December 2017 and approximately 66.8% and 33.2% of our total revenue for the ten months ended 31 October 2018.

We offer different series of polyester fabrics to our customers, including but not limited to brushed fabric, imitation silk, sateen, polyester shirt fabric, pongee, imitation printed cotton, to meet the various demands of our customers. Some of our fabrics have advanced features and additional functional properties, such as being light-resistant, abrasion-resistant, easy-to-wash, easy-to-dry, mildew-proof, insect-proof. Apart from the capability to manufacture functional polyester fabrics, we also possess certain patented production techniques and dyeing methods. As at the Latest Practicable Date, we had four invention patents, which are all developed by us, and nine utility model patents registered in the PRC. We also made seven patent applications in the PRC which were pending registration. During the Track Record Period, certain of our products, such as wax-dyed imitation cotton (仿棉蠟染布) and twisted jacquard (仿絞棕提花布), were awarded the China Chemical Fibre Excellence Boutique Gold Award* (中國化纖面料名優精品金獎) and China Chemical Fibre Excellence Boutique Award* (中國化纖面料名優精品獎). Please refer to the paragraph headed "Awards and certificates" in this section for details of the awards and recognitions received by our Group.

We manufacture our products in our own production facilities located in Huzhou City, Zhejiang Province, the PRC, with a total gross floor area of approximately 31,872.4 sq.m. Being strategically located in Huzhou City, we enjoy easy access to upstream and downstream enterprises along the supply chain in the Changjiang Economic Belt as well as the latest industry news and market information. According to the Frost & Sullivan Report, Zhejiang Province is among the top provinces for textile manufacturing in the PRC, accounting for approximately 22.0% of total production volume in the PRC in 2017. We also benefit from easy access to roadway, railway and waterway transportation including, State Way 318, Nanjing-Huzhou-Hangzhou toll expressway and Shanghai-Jiangsu-Zhejiang-Anhui toll expressway, thereby reducing our logistics and transportation costs and enabling us to offer our customers timely delivery. As at 31 December 2017, the designed annual production capacity at our Huzhou Production Facilities stood at approximately 12.9 million metres for our weaving factory and approximately 158.9 million metres for our printing and dyeing factory.

We invest in our machinery and equipment to enhance our production capabilities. We use advanced machinery and equipment in our Huzhou Production Facilities and our laboratory which include Tecnorama automated dripping and proofing system* (Tecnorama 自動滴液試樣系

統), Colorservice automated weighing system and fully automated pulp mixing and calibrating system* (Colorservice 自動稱料系統及全自動調漿配液系統) and other advanced machines such as setting machines, dyeing machines and weaving machines. Please refer to the paragraph headed "Production process – Machinery and equipment" in this section for details of our major machinery and equipment. Our Directors believe that our advanced machinery and equipment give us a competitive edge in the textile industry and provides a solid foundation for our research and development capability which is a vital element of our competence in producing products of quality in meeting the requirements of our customers and responding to market trends. In 2017, our laboratory in the Huzhou Production Facilities was recognised by the Economy and Information Commission of Zhejiang Province* (浙江省經濟和信息化委員會) as a Province-level Industrial Design Centre* (浙江省省級工業設計中心).

During the Track Record Period, our customers purchasing our fabrics principally consisted of manufacturers of apparels, outdoor products and home furnishing products as well as trading companies. Despite the majority of our customers were located in the PRC, our products were delivered to different countries during the Track Record Period, for instance, Mexico, South Africa, Chile, Argentina, India, Panama and Columbia. As for our provision of printing and dyeing services, our customers are mainly weaving factories and fabric processing companies.

Our principal raw materials for the manufacture and sales of fabrics are grey fabrics and chemical fibres. As for our provision of printing and dyeing services, the principal raw materials are dyes and other additives for fabrics. During the Track Record Period, a portion of the grey fabrics used in our production were manufactured from chemical fibres through weaving in our Huzhou Production Facilities. For other raw materials such as chemical fibres, dyes and additives, we source them mainly from domestic manufacturers in the PRC. We generally do not enter into any long-term supply agreement with our raw material suppliers. As such, we are free to source raw materials from different suppliers. We believe this provides us flexibility in sourcing raw materials with quality and competitive prices.

COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and differentiate us from our competitors:

We are strategically located in Huzhou City, Zhejiang Province, one of the top provinces for textile manufacturing in the PRC

Geographically, we are strategically based in Huzhou City, Zhejiang Province. Our Huzhou Production Facilities are located in Huzhou City, one of the major transportation hub along the Changjiang Economic Belt (Yangtze River Delta Economic Area) where we can enjoy easy access to roadway, railway and waterway transportation such as State Way 318, Nanjing-Huzhou-Hangzhou toll expressway and Shanghai-Jiangsu-Zhejiang-Anhui toll expressway.

According to the Frost & Sullivan Report, Zhejiang Province is among the top provinces for textile manufacturing in the PRC accounting for approximately 22.0% of the total production volume in the PRC in 2017. As at 2017, there were over 4,800 enterprises of different size and operation scale in Zhejiang Province. Located closely to the hub of the textile industry in the PRC with its well-established supply chain, we enjoy the advantage of the conglomeration effects thus generated. Not only do we have easy access to upstream and downstream enterprises along the supply chain, we also have great exposure to the latest industry news and market information. Such updated market information contributes to our research and development and helps us respond faster to changing trends and technologies.

Given the importance of the textile industry to Zhejiang Province, strong policy support was planned for in the Thirteen Five-year plan of the Zhejiang Province. It is among one of the six major target industries that are expected to be given great impetus in development for the period. Our Directors believe we are well placed to benefit from such policies.

Leveraged on our strategic location advantages, we have in the course of developing our business, established stable relationships with our major customers and suppliers. Among our five largest customers during the Track Record Period, we have been providing products to them for a period ranging from one to 12 years. Our Directors believe that our long term relationships with our key customers reflects our reputation among them and their confidence on our capabilities and the product quality. Furthermore, among our five largest suppliers during the Track Record Period, we have procured materials and services from them for a period ranging from two to 15 years. Maintaining good and long term relationships with our key suppliers is one of our strengths as our Directors believe that our Group can maintain stable and quality supplies of materials and services and negotiate more favourable terms with them.

In light of the above, our Directors believe that we are geographically located in a favourable operating environment with room and opportunities for business growth.

We command strong research and development capabilities

We believe that our strong research and development capabilities are critical to our success and will continue to drive the growth of our business. According to the Frost & Sullivan Report, research and development capability is one of the key factors for successful competition in the textile industry in the PRC, as the consumers' requirements on design and functions are constantly changing.

Our laboratory is located in our Huzhou Production Facilities with a gross floor area of over 1,000 sq.m. and equipped with advanced machinery and equipment. We have, for example, Tecnorama automated dripping and proofing system* (Tecnorama 自動滴液試樣系統) which is used for simulating the real workshop-production in our production process and facilitating the systematic combination of dyes. In our laboratory, we are able to

produce samples of our products, test the dyeing effects and refine the efficiency of our production process. As at the Latest Practicable Date, our research and development team consists of 48 staff members.

Since the establishment of our Huzhou Production Facilities in 2003, we have greatly enhanced our research and development capabilities in various aspects, such as texture and functionality of our products, production technology and environmental protection enhancement. In 2016, our wax-dyed imitation cotton (仿棉蠟染布) and twisted jacquard (仿絞棕提花布) developed from our laboratory, were awarded the China Chemical Fibre Excellence Boutique Gold Award* (中國化纖面料名優精品金獎) and China Chemical Fibre Excellence Boutique Award* (中國化纖面料名優精品獎) by China Filament Weaving Committee* (中國長絲織造協會) respectively. As a result of the efforts by our dedicated research team, we were able to offer different types of fabrics to our customers during the Track Record Period. As at the Latest Practicable Date, we had registered four invention patents, which are all developed by us, and nine utility model patents. We also made seven utility model patent applications in relation to certain products, production techniques and dyeing methods. For details of our patents, please refer to the paragraph headed "Intellectual property rights – Patents" in Appendix V to this prospectus.

With a view to strengthening our research and development capabilities on textile products and to enhancing our existing production techniques, we have been collaborating with academic institutions to research and develop technologies used in our fabric products and enhance production efficiency. Since the establishment of our laboratory, we have entered into co-operation agreements with various universities and institutions such as Zhejiang Sci-Tech University (浙江理工大學) and Xi'an Polytechnic University (西安工程大學). Major research projects completed and currently undertaken include united folding, rolling and packaging technology, automated and high-precision dye delivery system, pre-dyeing uncoiling synchronisation technique, integrated setting machines, automated weighing control system, fully automated re-cycling of waste residue technique and automated dripping control system.

As a result of our accomplishment in research and development, in June 2017, our laboratory was recognised by the Economy and Information Commission of Zhejiang Province* (浙江省經濟和信息化委員會) as a Province-level Industrial Design Centre* (浙江省省級工業設計中心). We have been appointed as one of the members of the drafting committee of the industry technical standards of certain new fabric types, i.e. polyester painted foil fabric (滌綸燙金面料) and cotton wax imitation printed fabric (純棉仿蠟印花布), to be published by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和訊息化部). We have also been recognised by Science and Technology Department of Zhejiang Province* (浙江省科學技術廳), Zhejiang Provincial Department of Finance* (浙江省財政廳), Zhejiang Provincial State Taxation Bureau* (浙江省國家税務局) and Zhejiang Province Local Taxation Bureau* (浙江省地方税務局) as a High and New Technology Enterprise* (高新技術企業) in October 2014. We believe our strong research and development capabilities and efforts have provided us with the

advantages of improving production efficiency, diversifying our products, meeting customers' different requirements and reduction of production costs.

Our production process is highly automated and enables us to produce products efficiently, cost-effectively and with high quality

Our production process is highly automated. For the two years ended 31 December 2017 and the ten months ended 31 October 2018, our additions in machinery and equipment were approximately RMB5.5 million, RMB21.5 million and RMB7.6 million, respectively. These machinery include:

(i) Colorservice automated weighing system and fully automated pulp mixing and calibrating system* (Colorservice 自動稱料系統及全自動調漿配液系統). This imported equipment from Colorservice of Italy can automatically calibrate and mix all dyeing inputs in precise proportions and directly deliver the pulp to the dyeing machine in the production line.

(ii) smart stretch setting machines. This machine is able to control certain variables in the production process including the time, temperature and speed and thereby yield stable quality performance and save energy. It can also control the emission of exhaust gas.

(iii) smart high-temperature, high-pressure dyeing machine. This machine can reduce dyeing time while saving the consumption of electricity and water.

Apart from the installation of advanced machines, the production process in our Huzhou Production Facilities is monitored by an integrated digital platform built by our research and development team. This system cuts across different spheres of management, including production planning, inventory control, quality control, sales, procurement, finance, product development, customer service and project management. By connecting our advanced machines and automated production system to this central control platform, it improves our manufacturing efficiency, product quality and thus saves cost for our Group's operation.

Our Directors believe that manufacturing capabilities and quality control go hand in hand with each other and are crucial to our success in the industry. While automation and digital management of resources and process are critical to quality, it is also imperative that we have meticulous control standards and implement proper procedures in each stage of production, from the selection of suppliers, the inspection and testing of incoming materials to the actual production and inspection of final products.

We proactively match our manufacturing process with the tightening standards imposed by the government authorities and environmental protection agency. We regularly update our sewage control equipment and introduce new installments. We engage in research with a view to upgrading our ability to manage sewage and waste residues. We

have also linked our testing system with our online data system on our digital platform to the extent that we can now monitor the state of pollution generated in the production process on a scale-time basis.

Further details of our quality control system are set out under the paragraph headed "Quality control" in this section. In addition, we have passed Safety Production Standardisation Licence* (安全生產標準化證書), ISO 9001 Quality Management System* (ISO 9001 質量管理體系), ISO 14001 Environmental Management System* (ISO 14001 環境管理體系) and OHSAS 18001 Occupational Safety and Health Management System* (OHSAS 18001 職業安全健康管理體系). Our Directors believe that our emphasis on product quality has contributed to our success in gaining our customers' confidence in our products, which is essential to our long-term development in the industry.

We offer our customers a wide range of products

During the Track Record Period, we engaged ourselves in producing a wide range of products, including brushed fabric, imitation silk, sateen, polyester shirt fabric, pongee, imitation printed cotton. Having the capability to supply a diversity of products confers competitive advantages, by way of reducing our dependency on any single market segment creating cross-selling opportunities, expanding our customer network and saving production cost through exploiting the synergies in the production of similar yet differentiated products.

Leveraged on our strong research and development capabilities, we are able to develop fabrics with additional functions and desirable features. Our popular product series consist of a range of high quality imitation fabric, such as imitation silk and imitation cotton which use polyester as the basic material. By applying special dyes, additives as well as special processing techniques, we can also confer desirable functions onto our fabric. These functional properties include being light-resistant, abrasion-resistant, easy-to-wash, easy-to-dry, mildew-proof, insect-proof, oil-proof, anti-pilling, UV-protecting, anti-static etc.

Being empowered to develop and produce fabrics with special functions and features, our products can cover a wide array of applications. On top of producing fabric for apparels, our products are widely applicable to the making of tents, curtains, bed cloth, decorative cloth, yacht gear etc. Moreover, we are also in a position to supply customised fabric such as traditional and festive wear for special ethnic groups in places like Africa, Middle East and South East Asia. Accordingly, we believe that our diverse product range and our capabilities in developing products with special functions and features enable us to effectively adapt to product and technical adjustments according to changes in the market and customers' needs.

We have an experienced management team with strong industry expertise

Our management team has extensive industry knowledge and experience in the textile industry in the PRC. In particular, Mr. Dai, our Chairman and executive Director, has over 25 years of experience in the textile industry. Ms. Song, our executive Director, has also over 20 years of experience in the textile industry. Both Mr. Dai and Ms. Song have previously worked in several printing and dyeing companies during which they were responsible for the management of the respective company. For details of the qualifications and experience of our Directors and senior management members, please refer to the section headed "Directors and Senior Management" in this prospectus. Our Directors believe that the qualifications and experience of our Directors and senior management members enable our Group to understand the market dynamism and industry practice of textile industry and hence have contributed to our past success and will be able to further facilitate our development and maintain our market position in the long run.

BUSINESS STRATEGIES

We strive to achieve sustainable growth and further enhance our market position in the textile industry in the PRC. To this end, our Directors plan to leverage on our competitive strengths by implementing the following strategies:

Expand our production capacity and upgrade the existing machinery and equipment at our Huzhou Production Facilities

As at the Latest Practicable Date, our Huzhou Production Facilities had a gross floor area of approximately 31,872.4 sq.m.. Set out below are the designed production volume, actual production volume, converted actual production volume and utilisation rate of our Huzhou Production Facilities:

	Year ended 31 December								Ten months ended 31 October			
	2016				2017				2018			
	Designed annual production capacity *(million metres)*	Actual production volume *(million metres)*	Converted actual production *(million metres)*	Utilisation rate *%*	Designed annual production capacity *(million metres)*	Actual production volume *(million metres)*	Converted actual production *(million metres)*	Utilisation rate *%*	Designed annual production capacity *(million metres)*	Actual production volume *(million metres)*	Converted actual production *(million metres)*	Utilisation rate *%*
Weaving	13.5	15.4	12.9	95.6	12.9	14.1	12.2	94.6	11.2	12.9	11.1	98.8
Printing and dyeing	99.2	83.4	89.0	89.7	158.9	140.0	150.8	94.9	178.1	175.0	174.7	98.1

As shown in the above table, our existing production facilities have been heavily utilised. For further details, please refer to the paragraph headed "Production process – Production facilities" in this section.

We intend to step up our investment in the realm of smart manufacturing based upon digital technology. In this respect, we are building an intelligence control management system, linking our production system with ERP. The system will be supported by cloud computing. We will also be introducing robotics and collaborating with other industry players in 'data-sharing'. Digitalisation in this manner not only helps us in our research programmes, but the on-line monitoring capabilities thus available will help us go a long way to improve our quality performance.

In order to capture the emerging business opportunities, we plan to expand our production capacity in the following ways:

Weaving

Designed annual production capacity	:	As at 31 December 2017	–	approximately 12.9 million metres
		By end of 2020	–	approximately 30.0 million metres
Expansion plan	:	To construct a new factory with a gross floor area of approximately 6,000 sq.m. adjacent to our weaving factory at Hongqi Village, Jiapu Town* (夾浦鎮紅旗村)		
		To renovate the existing weaving factory		
		To acquire 146 new water-jet looms for increasing our production capacity and efficiency and replacing the existing machines. The newly acquired water-jet looms will have higher production capacity and efficiency		
		To acquire a power transformer and a sewage processing system for enhancing environmental compliance		
Timeline	:	Construction of the new weaving factory is expected to commence during the six months ending 30 June 2019 and complete during the six months ending 31 December 2019		
		Acquisition of machines is expected to take place during the period from June 2019 to June 2020		

Total investment	:	Approximately RMB46.1 million (equivalent to approximately HK$53.5 million), comprising approximately RMB25.0 million (equivalent to approximately HK$29.0 million) for construction of new weaving factory and renovation of the existing weaving factory, approximately RMB18.3 million (equivalent to approximately HK$21.2 million) for the acquisition of 146 new water-jet looms and approximately RMB2.8 million (equivalent to approximately HK$3.2 million) for the installation of the power transformer and sewage processing system

Printing and dyeing

Designed annual production capacity	:	As at 31 December 2017	–	approximately 158.9 million metres
		By end of 2020	–	approximately 251.8 million metres
Expansion plan	:	To acquire two new setting machines and two new printing machines To install an intelligence control management system To install a "zero-emission" polluted water management system		
Timeline	:	Acquisition of setting machines and printing machines and installation of the "zero-emission" polluted water management system is expected to be completed during the six months ending 30 June 2019 Installation of the intelligence control management system is expected to be completed during the six months ending 30 June 2020		

Total investment	:	Approximately RMB16.3 million (equivalent to approximately HK$18.9 million) comprising approximately RMB8.4 million (equivalent to approximately HK$9.7 million) for the acquisition of printing machines and setting machines; approximately RMB5.9 million (equivalent to approximately HK$6.8 million) for the installation of the intelligence control management system and approximately RMB2.0 (equivalent to approximately HK$2.3 million) million for the installation of the "zero-emission" polluted water management system

For details, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Continuously dedicate to our research and development projects

According to the Frost & Sullivan Report, the market size of the textile industry in the PRC will continue to be driven by the (i) continuous domestic demands; (ii) technological innovation; and (iii) support from the PRC Government in future, with an estimated CAGR of approximately 1.9% for the period from 2017 to 2022. In 2017, the top five textile fabric manufacturers in the PRC contributed to approximately 1.6% of the overall textile fabric manufacturing industry. Industry participants with strong research and development capabilities in product development will have comparative advantages by adapting to the fast-changing market trend.

We believe regular product innovation and timely response to market trends and development are critical to success in the textile manufacturing industry. We consider our research and development capabilities are vital to our competence in producing products of high quality and hence to our continuous business growth. Set out below are some research and development projects which we are currently involved in:

– develop new kinds of techniques such as chemical fibre high temperature and eco-friendly dyeing process* (化纖織物高溫環保染色工藝);

– develop new kinds of raw materials such as infrared warm polyester minimat* (紅外保暖平紋尼面料), anti-UV and anti-static sateen* (抗紫外防靜電色丁面料) and flame retardant antifouling sateen* (阻燃防污色丁面料), and apply them in our production process to diversify our fabric features and applicability; and

– collaborate with Zhejiang Sci-Tech University (浙江理工大學) to develop new kinds of products for medical or health care purposes, such as fabrics with medical function of controlling the release of drug particles (具有藥物緩釋作用的醫用紡織面料) and textiles with health protection functions of moisture absorption, antibacterial and self-heating (高附加值保健系列家紡產品).

In October 2018, we have been recognised by Economy and Information Commission of Zhejiang Province* (浙江省經濟和信息化委員會) as Textile Manufacturing Industry "Double Innovation" Platform Model Construction* (紡織製造業「雙創」平台示範建設).

By enhancing production techniques and diversifying the functions of fabrics, our Directors anticipate that the continuous innovation will drive our revenue growth and support our business expansion plans.

For details of our future plans and use of proceeds and reasons for the Listing, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Enhance our environmental protection and quality control systems

Our Directors are of the view that it is crucial to maintain and continue to enhance the environmental protection and quality control systems in order to ensure compliance with relevant regulations, uphold our market position and solicit prominent manufacturers as our customers. For further details, please refer to the paragraphs headed "Quality control" and "Environmental protection" in this section.

We plan to implement the business strategy by (i) recruiting more quality control staff, (ii) engaging third party consultant on environmental protection and quality control and (iii) improving the training programme for newly joined staff and our existing employees. We intend to fund the enhancement of our quality control system with our internal resources as appropriate. For further details, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

On the other hand, in view of the tightening standards set out by the environmental protection agency, we also plan to proactively orientate our production system to 'greener' level. This is achieved via several major routes. First is to regularly upgrade our sewage processing system and introduce new installments, i.e. the new sewage processing system to be installed in our weaving factory. Second is to engage in researches with a view of upgrading our ability to manage sewage and waste residues. To this end, we have previously worked with research centres at universities in related projects. For example, in pursuance of the standards laid down in GB/T 24001-2001/ISO 14001: 2004, we have developed the required environmental management know-how and obtained accordingly the relevant certification. Third is to make attempts to link our testing system with our online data system, i.e. the intelligence control management system to be installed in our printing and dyeing factory so that we can monitor the state of pollution on a real-time basis.

The strategies we are employing consist of introducing more anti-pollution equipment and initiating more related research projects so that we are able to meet the anticipate rising standards to be imposed by the environmental regulatory authorities. In this regard we will be actively inventing our home-groomed technology, while taking part in relevant research projects and collaborating with research institutes at universities.

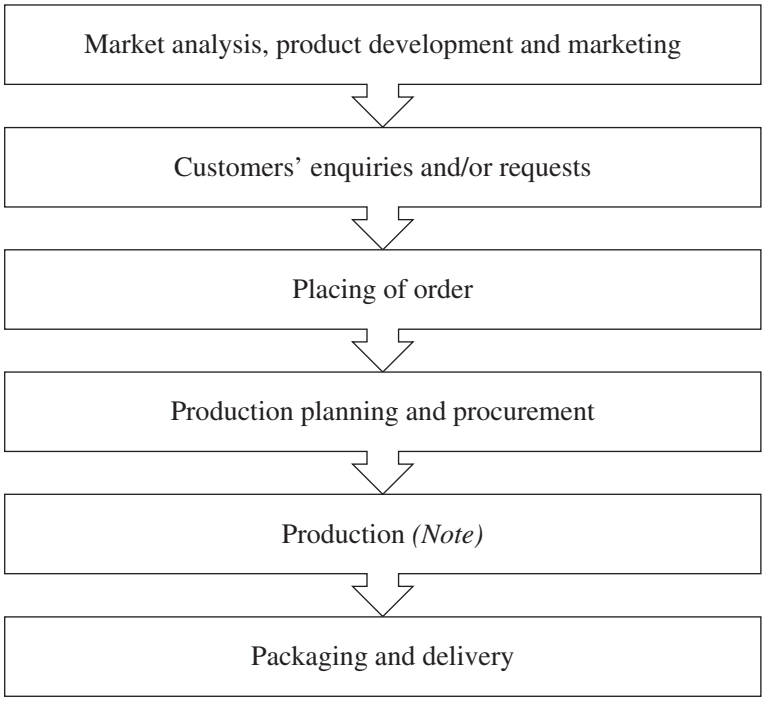
In November 2018, we were recognised as Huzhou City Four-star Green Factory* (湖州市四星級綠色工廠) by Huzhou City Create "Made in China 2025" Pilot Model City Leadership Group Office* (湖州市創建「中國製造2025」試點示範城市領導小組辦公室).

As at the Latest Practicable Date, we have researched and developed certain utility model patents in relation to environmental-friendly production techniques, including (i) the dyeing machine waste water cyclic utilisation device and method, a new technology for polluted water management and re-cycling with two sets of filter apparatus between the sedimentation basin and the sewage treatment tank and an apparatus for collecting pollutants and recycling polluted water; and (ii) wetting type static purification device for exhaust gas of multi-set combination sloped pipe setting machine, which is capable of removing polluted particles from the exhaust gas emitted during the dyeing process, etc. for further use.

BUSINESS MODEL

At present, we principally engage in (i) the manufacture and sales of fabrics and (ii) the provision of printing and dyeing services. The key phases of our business operation are set out below:

Sales of fabrics



Note: Our entire production process of sales of fabrics commonly involves (i) weaving; and (ii) printing and dyeing. For further details of the production process, please refer to the paragraph headed "Production process" in this section.

Market analysis, product development and marketing

Our Directors believe our research and development capabilities differentiate us from our competitors in the industry. As initiated by our sales team, we conduct market analysis from time to time including data collection, researches on the domestic and international market trend and review of our product portfolio such as the textures and features of fabrics which we currently offer to our customers. Based on the result of our market analysis or as requested by our customers, our research and development team may initiate the development of fabrics with new features, textures and/or other specifications. In some cases, customers may provide sample fabrics and request us to produce fabrics with features and specifications same as the samples.

We conduct our research and development projects at our laboratory in our Huzhou Production Facilities. With our advanced machinery and equipment, we are able to (i) simulate the real workshop-production in our production process and (ii) produce sample or prototypes of our products. By conducting research and development projects, we are capable of offering our customers products with new features, textures and other specifications based on the customers' requests or our market analysis.

As part of our marketing strategies, our sales team would visit our existing and potential customers from time to time, receive their feedback on our products and obtain information on the market trends. We also attend trade fairs and exhibitions such as Shanghai Textiles Exhibition* (上海面料展) and Canton Fair (廣交會展) to explore new business opportunities. During the visits or trade fairs, we market our new products developed by our research and development team to our customers and potential customers. Should the customers express interest to our new products, our sales staff will follow up with them regarding their enquiries and requests.

Customers' enquiries and/or requests

Before placing orders, our customers usually enquire about our production capability and ask for price quotation. Our sales team would communicate with them to obtain details about their planned orders, such as product specifications, volume, packaging and delivery arrangements. For new orders, we generally send a number of samples to the customers for their confirmation. Once we receive confirmation from the customers, the product specifications in such sales will be based on such samples we have previously provided. For recurring orders, the specifications of products are included in the sales confirmation with no sample provided to the customers.

The assessment generally takes 15 days from customers making enquiries to their placement of orders.

Placing of order

For sales of fabrics, our sales team provides quotations to our customers based on the suggested selling price fixed by the management every month. Once the product sample or

prototypes and quotations are accepted by our customers, we will proceed to prepare the sales agreement or sales confirmation. The sample/prototypes will be used as a standard for appraising the end products. We generally do not enter into long-term agreement with our customers for supply of products. The sales confirmation between our customers and us include the general terms of sales arrangement, such as product quantity and price. Detailed payment terms, colour, packaging, delivery terms, quantity and price are included in a separate production instruction provided by our customers.

Upon receipt of the production instruction from our customers, our sales team will review the orders and our procurement team will check the availability of inventory, source the necessary raw materials and liaise with subcontractors if necessary.

Production planning and procurement

Our sales and procurement department and production department jointly hold a meeting in relation to sales projection, production plan and procurement plan every month. During the meeting, the departments will draw up (i) the sales projection based on the actual sales confirmation received; (ii) the production plan based on the sales projection and the current production capacity and utilisation rate; and (iii) the procurement plan based on the sales projection, the inventory level of raw materials and the production plan. The sales projection includes the details of the sales to be undertaken in the following month such as the products involved, required quantity and the price. Production plan provides the number of machines to be utilised for the manufacture of products and their respective estimated production time while the procurement plan specifies the quantity of the required raw materials, either retrieved from our stock or purchased from our suppliers. The preparation of the three plans generally takes one to two days.

We source raw materials through our sales and procurement department which maintains a list of qualified suppliers approved by our management team. The principal raw materials required for our production of fabrics include grey fabrics and chemical fibres. To enhance our operating efficiency and to control costs, we manufacture a portion of grey fabrics from chemical fibres through weaving which are used in our production process. We generally do not sell our self-produced grey fabrics to customers directly. For each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, we produced approximately 15.4 million, 14.1 million and 12.9 million metres of grey fabrics, respectively. Our procurement staff is responsible for overall procurement planning, evaluation and approval of potential suppliers as well as negotiation of purchase terms with suppliers. Once the broad terms of purchases have been agreed between our procurement staff and the suppliers, we would place individual purchase orders with them based on particular needs.

Taking into account the confirmed orders and the estimated future sales, we normally keep stock of essential raw materials, such as grey fabrics, chemical fibres and dyes, at a level sufficient for 30 to 45 days. To reduce risk of business interruption, we have also identified at least three key suppliers for our essential raw materials, except for custom feature materials. Suppliers are responsible for arranging delivery to our Huzhou Production Facilities. Sample

checks and testing are conducted by our quality control staff prior to acceptance. For further details, please refer to the paragraph headed "Quality control" in this section.

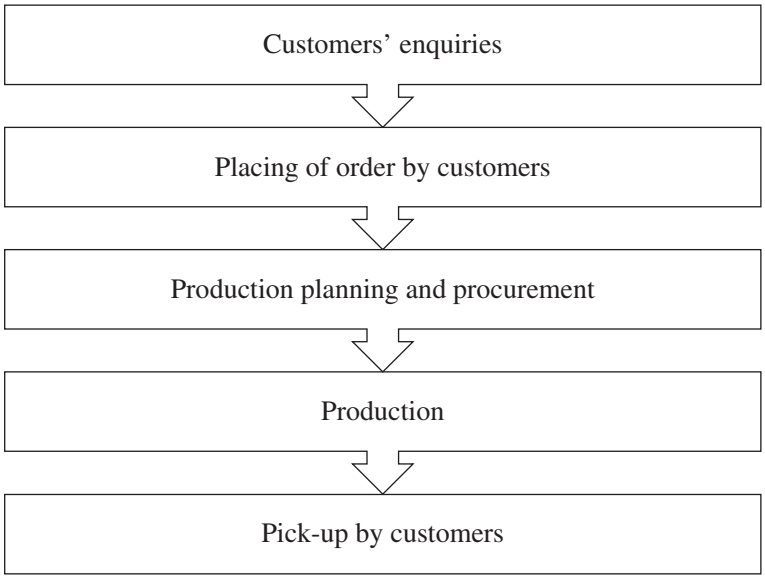
Production

All of our production processes are carried out at our Huzhou Production Facilities. We impose quality control throughout our production processes from the arrival of raw materials to finished products. Depending on the complexity of the production process, our production lead time takes normally from 30 days to 45 days. For further details of the production process, please refer to the paragraph headed "Production process" in this section.

Packaging and delivery

We arrange packaging and delivery of finished products to our customers according to the agreed terms. For designations in the PRC, we normally arrange our customers to collect the products at our Huzhou Production Facilities. For sales which our customers intended to deliver the products to other countries, we generally rely on third party logistics companies to deliver our products to the domestic port on FOB or CIF basis. We are generally required to pay for the transportation costs to the domestic port, before shipping to the customers' designated location.

Provision of printing and dyeing services



Customers' enquiries

Upon receiving our customers' enquiries, our sales staff would communicate with them to obtain details about their order requirements. Once the customers have accepted our price quotation, the specifications of products are included in the sales confirmation. We do not provide samples to customers for provision of printing and dyeing services.

The assessment generally takes 15 days from customers making enquiries to placement of orders.

Placing of order

For provision of printing and dyeing service, our sales team provides quotations to our customers based on the suggested selling price fixed by our management every month. Once the quotations are accepted by our customers, we will proceed to prepare the sales confirmation. We do not enter into long-term agreement with our customers for the provision of printing and dyeing services. The sales confirmation between our customers and us included the general terms of sales arrangement such as product quantity and price. Detailed payment terms, colour, technical requirements, quantity and price are included in a separate production instruction provided by our customers.

Upon receipt of the production instruction from our customers, our sales team will review the orders and our procurement team will check the availability of inventory and source the necessary raw materials such as dyes and additives.

Production planning and procurement

Our sales and procurement department and production department jointly hold a meeting in relation to sales projection, production plan and procurement plan for our provision of printing and dyeing services every month. During the meeting, the departments will draw up three plans, namely (i) the sales projection based on the actual sales confirmation received; (ii) the production plan based on the sales projection and the current production capacity and utilisation rate; and (iii) the procurement plan based on the sales projection, the inventory level of raw materials and the production plan. The sales projection includes the details of the printing and dyeing services to be rendered, such as the required quantity and the price. Production plan provides the number of machines to be utilised for the printing and dyeing services and their respective estimated processing time while the procurement plan specifies the quantity of the required raw materials, either retrieved from our stock or purchased from our suppliers. The preparation of such three plans generally takes one to two days.

We source raw materials through our sales and procurement department which maintains a list of qualified suppliers approved by our management team. The principal raw materials required for our printing and dyeing services include dyes and other additives. Our procurement staff are responsible for overall procurement planning, evaluation and approval of potential suppliers as well as negotiation of purchase terms with suppliers. Once the broad terms of purchases have been agreed between our procurement staff and the suppliers, we would place individual purchase orders with them based on particular needs.

Taking into account the confirmed orders and estimated future sales, we normally keep stock of essential raw materials at a level sufficient for 30 to 45 days to ensure no disruption to our production. To reduce risk of business interruption, we have also identified at least three key suppliers for our essential raw materials, except for custom feature materials. Similar to our

weaving raw materials suppliers, they are responsible for arranging delivery to our Huzhou Production Facilities. Sample checks and testing are conducted by our quality control staff prior to acceptance. For further details, please refer to the paragraph headed "Quality control" in this section.

Production

All of the production processes are carried out at our Huzhou Production Facilities. We impose quality control throughout our production processes from the arrival of raw materials to finished products. Depending on the complexity of the production process, our production lead time takes normally seven days. In order to reduce our workload, we outsource certain production processes such as knurling, calendering, coating and trimming processes to subcontractors from time to time. We generally engage subcontractors if we have a very tight production schedule. Our subcontractors were mainly fabrics processing factories located in the PRC. To control quality, our quality control staff may conduct on-site inspection on the quality of their work. For detailed information regarding our arrangements with subcontractors, please refer to the paragraph headed "Production process – Subcontracting arrangements" in this section.

For further details of the production process, please refer to the paragraph headed "Production process" in this section.

Pick-up by customers

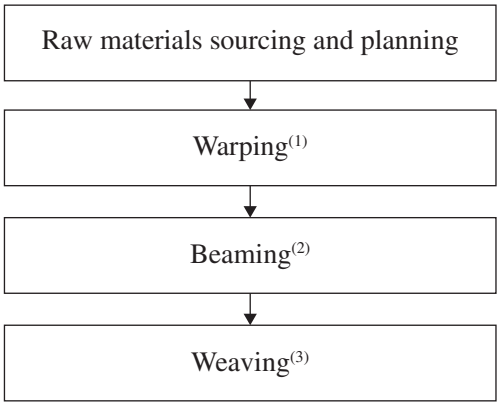
Our customers which we provide printing and dyeing services generally collect the finished products at our Huzhou Production Facilities.

PRODUCTION PROCESS

Our production process generally involves (i) weaving and (ii) printing and dyeing. Our production process is highly automated which results not only in increased production efficiency but also in enhanced profitability. The entire production process of fabrics, i.e. from weaving, printing and dyeing to the delivery of first batch of finished products, takes approximately 30 to 45 days, depending on the complexity of specifications and technical requirements of the customers.

Production process – Weaving

The chart below illustrates the production process for weaving, by which grey fabrics are produced:



Notes:

(1) Warping (整經)

Arranging bobbin cones in long length parallel to one another evenly with application of certain tension and rounding onto a beam.

(2) Beaming (併經)

Yarns are delivered from bobbin cones and treated with size. The after-sized beams are put in beaming cones which will be winded in a weaving beam.

(3) Weaving (織造)

The process of interlacing two yarns to cross each other at right angles according to technical requirement to produce fabric. The warp runs lengthwise and the weft runs perpendicular to warp, the interwoven of which produces fabric.

Weaving consists of the following steps:

(a) preparatory work (上機)

(b) shedding (開梭口): the raising of one or more harnesses to separate the warp yarns and form a shed

(c) picking (投梭): passing through the shed to insert the filling

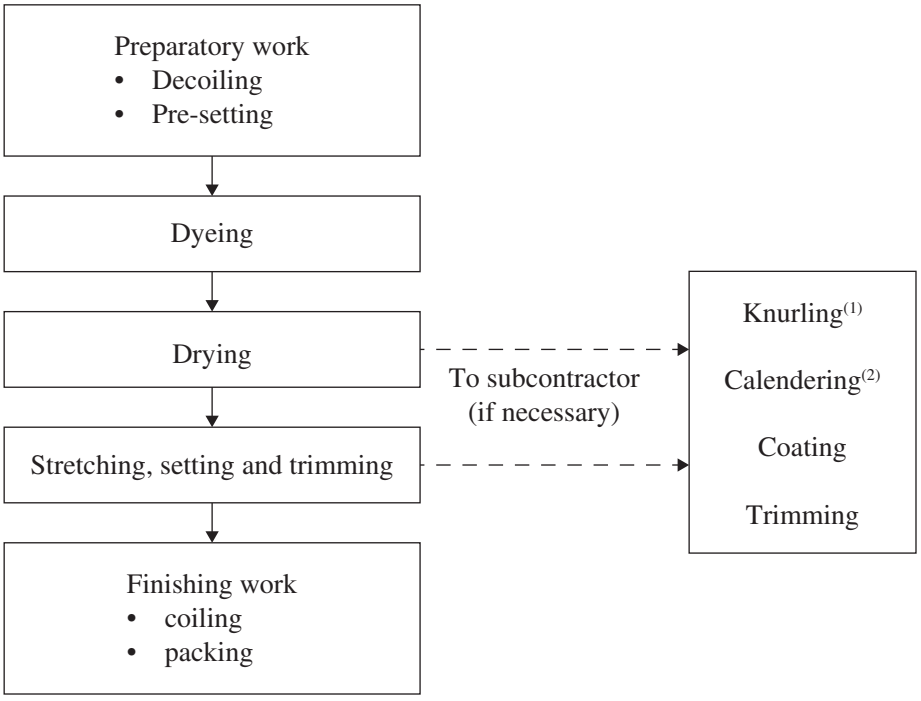
(d) beat-up (打緯): the reed pushing the filling yarn back in the cloth

(e) take-up (卷繞): the finished cloth is wound on the cloth beam

(f) unloading (下軸)

Production process – printing and dyeing

The chart below illustrates the production process for printing and dyeing:



Notes:

(1) Knurling (滾花): Knurling is a manufacturing process, where a pattern of straight, angled or crossed lines is rolled into the material.

(2) Calendering (壓延): Calendering is a finishing process used to smooth, coat, or thin a material, during which fabric are passed between calender rollers at high temperatures and pressures.

Depending on the specifications of the end product, some of the above steps might be repeated for further processing. Quality inspection throughout the whole production process is carried out to ensure our products meet the requirements of our customers and our quality standards. For further details, please refer to the paragraph headed "Quality control" in this section. During the Track Record Period, we did not experience any disruption in production which may materially and adversely affect our operations and financial conditions.

Subcontracting arrangements

Certain the production processes such as knurling, calendering, coating and trimming may be subcontracted to fabric processing factories from time to time depending on our production capacity and schedule. During the Track Record Period, our Group subcontracted part of our production of grey fabrics to subcontractors and all subcontractors engaged by us were Independent Third Parties. We maintain a list of qualified subcontractors approved by our

management and we will review their performance and subcontracting fees charged from time to time. As at the Latest Practicable Date, we had five subcontractors on our list respectively.

Our typical subcontracting arrangement includes the following steps:

- the subcontracting agreement sets forth the fees charged by a subcontractor and the quantities of the fabrics which require for such subcontracting arrangements;
- we set out the technical specifications which the subcontractor is required to comply with;
- the subcontractor is responsible for procuring the requisite raw materials on its own;
- our quality control staff may conduct on-site inspection and provide guidance in the course of the subcontracting work, if necessary; and
- upon completion of the subcontracting work, our quality control staff will inspect the processed fabrics at the production site of the subcontractors in accordance with the agreed technical specifications before arranging the collection/delivery of our fabrics products by/to our customers.

For the two years ended 31 December 2017 and the ten months ended 31 October 2018, the subcontracting fees incurred with these independent subcontractors amounted to approximately RMB13.1 million, RMB12.8 million and RMB17.2 million, respectively. We did not receive any material claims or complaints by our customers in respect of the quality of the fabrics processed by our subcontractors during the Track Record Period.

We select our subcontractors based on merits, namely, their expertise, the quality of their work, and their past performances. We had approximately one to ten years of working relationship with our subcontractors. We have not entered into any long-term agreements with our subcontractors and our dealings with them are on an order-by-order basis. During the Track Record Period, we did not experience any material disputes with our subcontractors.

Production facilities and technical upgrade in 2017

Our production facilities were located at Huzhou City, Zhejiang Province, the PRC with a total gross floor area of approximately 31,872.4 sq.m.. Our Huzhou Production Facilities operates 24 hours per day and around 330 days per year, having subtracted about 35 days for public holiday and maintenance work per year. For the year ended 31 December 2017, our designed annual production capacity for weaving and printing and dyeing was approximately 12.9 million metres and 158.9 million metres, respectively. During the Track Record Period and up to the Latest Practicable Date, save for the temporary interruption caused by the technical upgrade as described below, we did not experience any material interruptions of our production.

In January 2017, in view of the increasing need and the higher profit margin for our printing and dyeing services, we underwent technical upgrade to our printing and dyeing machinery and equipment in our Huzhou Production Facilities. Prior to the technical upgrade in 2017, our printing and dyeing services were mainly for the purpose of avoiding idling of the dyeing machines after catering for the needs of the customers in our sales of fabrics and generating additional income for our Group. As the majority of our fabrics sold to customers are printed and dyed fabrics, their production generally involves both (i) weaving and (ii) printing and dyeing process. In view of the higher profit margin in the provision of printing and dyeing services and the fact that an increased capacity in printing and dyeing could allow our Group to take in more orders for fabric production at the same time, we started planning the expansion on our production capability in printing and dyeing since 2016 by assessing the potential effects on our production during the technical upgrade and adjusted the sales targets and production plans for 2017 accordingly.

Our total investments in the technical upgrade amounted to approximately RMB30.1 million (inclusive of 17% value-added tax), comprising:

(i) approximately RMB23.5 million for acquiring additional machines, mainly dyeing machines and setting machines;

(ii) approximately RMB5.5 million for constructing extension of, and renovating the existing printing and dyeing factory;

(iii) approximately RMB0.8 million for purchasing transportation tools; and

(iv) approximately RMB0.3 million for purchasing electronic equipment.

As a result of the technical upgrade, we have acquired additional printing and dyeing machines as follows:

	Additional units acquired during the			**Approximate consideration per unit (inclusive of value-added tax)**	**Approximate aggregate consideration (inclusive of value-added tax)**
Machine Type	**five months ended 31 May 2017**	**six months ended 30 June 2017**	**year ended 31 December 2017**	*(RMB'000)*	*(RMB'000)*
Dyeing machine	0	18	38	190	7,206
Setting machine	2	6	8	1,524	12,190

From 1 January 2017 to 31 December 2017, our number of dyeing machines increased from 24 to 62 and our number of setting machines increased from five to 13. Other than that, our Group also acquired other machines and equipment amounting to approximately RMB4.1 million (inclusive of value-added tax) in the same period.

Setting machines played a crucial part in our technical upgrade as all of our printing and dyeing products have to be processed by the setting machines as the last step of production. Each additional setting machine can increase the designed monthly production capacity of our printing and dyeing production facilities by approximately 1.8 million metres. Our Group has purchased 2, 4 and 2 setting machines in May, June and December 2017, respectively. Accordingly, the designed monthly production capacity of our printing and dyeing facilities has been increased by approximately 3.6 million, 7.2 million and 3.6 million metres in production in the corresponding months.

The table below sets forth the designed annual production capacity, actual production volume, converted actual production volume and utilisation rate of our Huzhou Production Facilities during the Track Record Period:

	Year ended 31 December								Ten months ended 31 October			
	2016				2017				2018			
	Designed annual production capacity *(million metres)*	Actual production volume *(million metres)*	Converted actual production *(million metres)*	Utilisation rate *%*	Designed annual production capacity *(million metres)*	Actual production volume *(million metres)*	Converted actual production *(million metres)*	Utilisation rate *%*	Designed annual production capacity *(million metres)*	Actual production volume *(million metres)*	Converted actual production *(million metres)*	Utilisation rate *%*
Weaving	13.5 *(Note 1)*	15.4	12.9 *(Note 2)*	95.6 *(Note 3)*	12.9 *(Note 1&4)*	14.1	12.2 *(Note 2)*	94.6 *(Note 3)*	11.2 *(Note 1)*	12.9	11.1 *(Note 2)*	98.8 *(Note 3)*
Printing and dyeing	99.2 *(Note 5)*	83.4	89.0 *(Note 8)*	89.7 *(Note 6)*	158.9 *(Note 5&7)*	140.0	150.8 *(Note 8)*	94.9 *(Note 6)*	178.1 *(Note 5&7)*	175.0	174.7 *(Note 8)*	98.1 *(Note 6)*

Notes:

(1) The designed annual production capacity of our weaving production process is calculated based on the speed and efficiency of our weaving machinery and equipment. For the purpose of this prospectus, the designed annual production capacity is based on the following assumptions: (i) machines are operated 24 hours a day; (ii) machines are generally operated 330 days per year with public holiday and regular repair and maintenance in the remaining days; (iii) polyester fabric of 30 density counts are used as standardisation of our fabric products; and (iv) changing of weaving pattern.

(2) The converted actual production volume is calculated based on the speed and efficiency of our weaving machinery and equipment, types of products manufactured and technical specifications of our fabrics such as the advanced features involved. For the purpose of this prospectus, it is assumed that polyester fabric of 30 density counts are used as standardisation of our fabric products.

(3) Average utilisation rate is derived by dividing the converted actual production volume by the designed annual production capacity in the relevant year/period.

(4) The designed annual production capacity of our weaving production process decreased during the Track Record Period. This was attributable to our scheduled full-scale of our weaving machines, i.e. water-jet loom, once every three years in 2017 which took approximately 15 days for each machine. The days of operation for 2017 were therefore estimated to be 315 days.

(5) The designed annual production capacity of our printing and dyeing process is calculated based on the number of setting machines we operated and their functioning hours during the respective period. For the purpose of this prospectus, the designed annual production capacity is based on the following assumptions: (i) machines are operated 24 hours a day; (ii) machines are generally operated 330 days per year with public holiday and regular repair and maintenance in the remaining days; (iii) machines are subject to an hour 's halt for cleansing after each batch of dyed products; and (iv) the speed of the setting machine is set at 2,500 metres per hour as standardisation for our fabric products.

(6) Average utilisation rate is derived by dividing the actual production volume by the designed annual production capacity in the relevant year/period.

(7) The designed annual production capacity of our printing and dyeing production process increased during the Track Record Period. This was due to the increase in the number of setting machines as a result of the technical upgrade in 2017.

(8) The converted actual production volume is calculated based on the speed and efficiency of our dyeing machinery and equipment, types of products manufactured and technical specifications of our fabrics such as the design and patterns of the products. The speed of different types of fabric products going through setting machines varies from product to product (ranging from 1,500 metres per hour to 3,000 metres per hour). For the purpose of this prospectus, it is assumed that each fabric product goes through the setting machines at a speed of 2,500 metres per hour as standardisation.

As the technical upgrade involved the construction of an extension and renovation of the existing part of the Huzhou Production Facilities and the replacement/relocation of the existing machinery and equipment therein, the technical upgrade has partially interrupted the operation of, and reduced the production capacity of the Huzhou Production Facilities during the five months ended 31 May 2017. The operation of dyeing machines and setting machines were heavily interrupted by the technical upgrade and the number of dyeing machines and setting machines which were interrupted during the five months ended 31 May 2017 is as follows:

	Five months ended 31 May 2017				
Machine Type	**January**	**February**	**March**	**April**	**May**
Dyeing machine	12	12	18	18	12
Setting machine	2	2	4	4	2

Accordingly, the designed monthly production capacity of our printing and dyeing facilities has been reduced by approximately 3.6 million, 3.6 million, 7.2 million, 7.2 million and 3.6 million metres in production in the corresponding months.

During the technical upgrade, our Group has disposed of some machines including but not limited to two printing machines and one setting machine as those machines were too old and had low production capacity.

Around June 2017, when six additional setting machines have been acquired, the technical upgrade was partly completed and the operation of the Huzhou Production Facilities partially resumed. The technical upgrade has in overall brought to our Group an increase in the designed annual production capacity of our printing and dyeing production facilities from approximately

99.2 million metres for the year ended 31 December 2016 to approximately 158.9 million metres for the year ended 31 December 2017.

Leveraged on the preparatory work of our Group to develop the printing and dyeing services since 2016 and word of mouth and referral, coupled with the fact that the industry underwent a shortage of printing and dyeing services in Zhejiang Provinces in 2017, our Group's printing and dyeing machinery remained highly utilised after completion of the technical upgrade.

Upon the completion of the technical upgrade in 2017, there were (i) 86 and (ii) 92 new printing and dyeing customers (i) for the seven months ended 31 December 2017; and (ii) for the ten months ended 31 October 2018, respectively. All of these new customers are PRC private companies and 142, 26 and 10 of them located in Zhejiang Provinces, Jiangsu Provinces and other provinces of the PRC. Our Group got acquainted to such new customers by the way of promotion by the sales team, attending trade fairs and exhibitions and introduction since 2016. Given the strong demand and high utilisation rate, our sales and profit from the printing and dyeing services segment have also increased for the year ended 31 December 2017 and the ten months ended 31 October 2018.

Machinery and equipment

Our Huzhou Production Facilities are equipped with a variety of machinery and equipment to cater for different stages of the production process. As at 31 October 2018, we had over 800 pieces of machinery and equipment at our Huzhou Production Facilities.

The table below sets forth the major functions and weighted average remaining useful life of our major production machinery and equipment as at 31 October 2018:

Machinery	**Major function**	**Origin**	**Number of unit(s)**	**Approximate estimated average age** *(years)*	**Approximate estimated average remaining useful lives** *(years)*
Laboratory					
Tecnorama automated dripping and proofing system* (Tecnorama 自動滴液試樣系統)	Workshop-production simulation	Italy	1	10	6

Machinery	Major function	Origin	Number of unit(s)	Approximate estimated average age *(years)*	Approximate estimated average remaining useful lives *(years)*
Colorservice automated weighing system and fully automated pulp mixing and calibrating system* (Colorservice 自動稱料系統及全自動調漿配液系統)	Calibration of dyeing inputs in precise proportions	Italy	1	10	6
Weaving					
Texturing machine (加彈機)	Elasticising the chemical fibres	PRC	6	10	7.7
Water-jet loom (噴水織機)	Weaving	PRC	146	10	6.5
Printing and dyeing					
Setting machine (定型機)	Stabilising the dyed products	PRC	15	10	6.8
Dyeing machine (染色機)	Dyeing	PRC	74	10	5.3
Printing machine (印花機)	Printing patterns	PRC	1	10	2
Drying machine (脱水機)	Drying	PRC	25	10	5.6
Scutcher (開幅機)	Decoiling	PRC	14	10	5.2

Note: The actual useful lives of these machinery and equipment may be different from the estimates due to reasons such as periodic maintenance.

We carry out general maintenance of our major production machines on a regular basis. Some of our key machines have reached or will soon reach the expiration of their expected useful life on the basis of depreciation accounting. We will, however, continue to make use of these machines through regular repair and maintenance. There would be no immediate need for replacement as long as they are still functional. During the Track Record Period and up to the Latest Practicable Date, save for the temporary interruption caused by the technical upgrade in 2017, there had been no major disruption of our business operation due to machine or equipment failure. For further details of the technical upgrade in 2017, please refer to the paragraph headed "Production facilities and technical upgrade in 2017" in this section.

The estimated useful lives of our machinery and equipment are five to ten years. As at 31 October 2018, the majority of our major production machinery and equipment are over five years old. Save for the future plan to replace our 146 existing water-jet looms with new model water-jet looms with higher weaving capability as mentioned in the section head "Future Plans

and Use of Proceeds – Future plans" in this prospectus, our Group has no intention to replace other machinery and equipment. Our Group will consider replacement of old machinery as and when necessary out of our internal resources generated from our operation.

PRODUCTS

Our fabrics are mainly used for apparel products, home furnishing products and industrial work-wear. We classify our fabrics into different series primarily according to their features such as textures and style. They include brushed fabric, decorative fabric, imitation silk, sateen, pongee, polyester shirt fabric, oxford fabric, imitation printed cotton, polyester curtain fabric and spandex.

We have a large variety of products which are distinctive in, among other things, raw materials, colours and technical specifications and such products may also be required to go through modification or different production steps which may be repeated during the production process. We believe our diverse product range enables us to capture the business opportunities on changing market trends and consumer preferences in the market.

Product series

Our fabric products are generally used by our manufacturing customers to produce their end products which have wide applications in different industries. The end products of our customers include, among other things, apparels, home furnishing products such as bed cloth and curtain, and outdoor products such as tent or yacht canvas. Some of our products have advanced features and additional functional elements, for example:

- elasticity or high tensile strength
- resistant to abrasion, temperature, moisture or sunlight
- easy-to-dry, easy-to-wash
- mildew-proof, insect-proof

Our Directors believe that our diversity of products is one of our core competitive strengths. Please refer to the paragraph headed "Competitive strengths" in this section for details. The following table sets forth a summary of our principal product series and their respective applications during the Track Record Period:

Principal product series		**Applications**
Brushed fabric (磨毛布)		Home furnishing products
Decorative fabric (裝飾布)		Home furnishing products
Imitation silk (仿真絲)		Apparels
Sateen (色丁)		Apparels

Principal product series		Applications
Pongee (春亞紡)		Apparels
Polyester shirt fabric (滌綸襯衣面料)		Apparels
Oxford fabric (牛津布)		Water-proof products such as luggage case and shoes
Imitation printed cotton (仿棉印花面料)		Home furnishing products and apparels

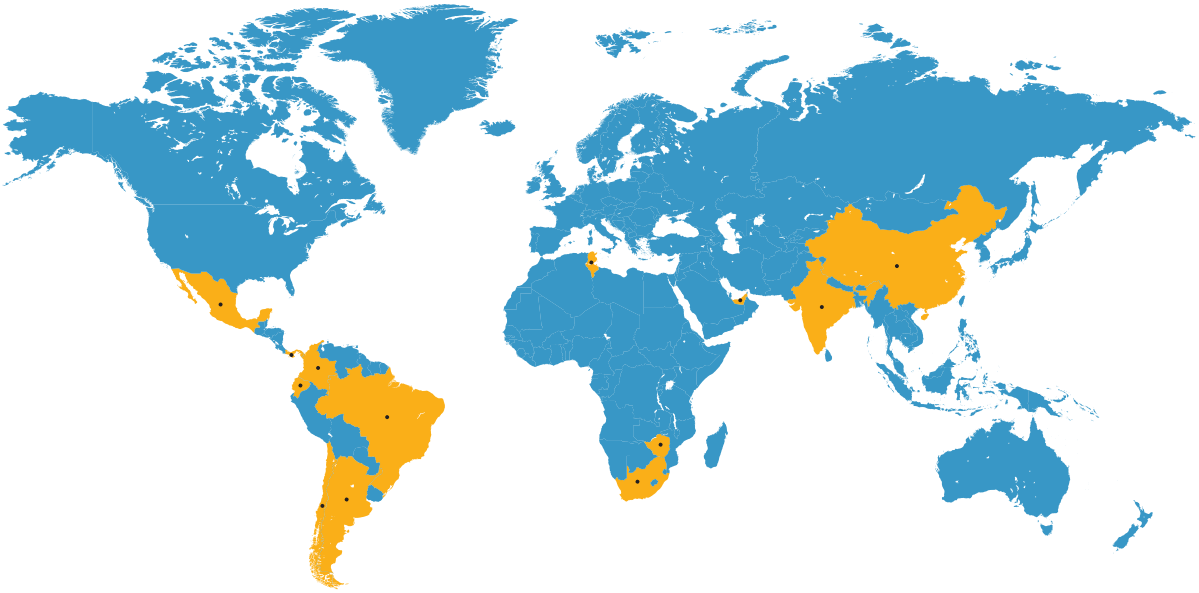
Principal product series		Applications
Polyester curtain fabric (全滌窗簾布)		Home furnishing products
Spandex (彈力布)		Apparels, bags and purses

SALES AND MARKETING

Sales channels

Our sales are mainly generated through the work of our sales team. Our sales staff are generally responsible for confirming purchase orders with customers and liaising with the sales and procurement department and production department in relation to production and procurement planning.

For our sales of fabrics, despite the majority of our customers were located in the PRC, our products were delivered to different countries during the Track Record Period. Our fabric sales customers included manufacturers as well as trading companies. Some of these trading companies ultimately sold our products to their end customers worldwide and we are required by these customers to deliver our products to the domestic ports in the PRC at our costs where the products are shipped to the end customers directly at the costs of our customers. During the Track Record Period, our products were delivered to countries such as Mexico, South Africa, Chile, Argentina, India, Panama, Columbia. The following map illustrates the geographical coverage of our products by the ports of destination during the Track Record Period:



For further details on our revenue breakdown by geographical regions, please refer to the section headed "Financial Information – Description of selected items in consolidated statements of profit or loss and other comprehensive income" in this prospectus.

Marketing and promotion

We took part in a multitude of exhibitions in different countries periodically. During the Track Record Period, we attended a number of exhibitions and trade fairs, including Shanghai Textiles Exhibition* (上海面料展) held in the PRC, Emitex (阿根廷國際紗線、紡織品展覽會) held in Argentina and Mexico International Fabrics Exhibition* (墨西哥國際紡織面輔料展) held in Mexico. During the Track Record Period, our expenditure on participating in trade fairs and exhibitions amounted to approximately RMB179,000, RMB343,000 and RMB190,000, respectively. These exhibitions provide useful venues for us to showcase our newly developed prototypes, explore new business opportunities and expand our customer base effectively. In addition, we promote our products and explore new business through online social platforms.

Customer profile

During the Track Record Period, our customers purchasing our sales of fabrics principally consisted of manufacturers of apparels, outdoor products and home furnishing products as well as trading companies. As for our provision of printing and dyeing services, our customers are mainly weaving factories and fabric processing companies.

Our major customers

For the two years ended 31 December 2017 and the ten months ended 31 October 2018, the percentage of revenue attributable to our largest customer amounted to approximately 28.2%, 31.7% and 25.0%, respectively, while the percentage of total revenue attributable to our five largest customers combined amounted to approximately 59.5%, 47.9% and 45.4%, respectively. The table below sets out some basic information about our Group's top five customers for the periods indicated:

For the year ended 31 December 2016

Rank	Customer	Background	Location	Major types of products sold by us during the Track Record Period	Approximate years of relationship with our Group as at the Latest Practicable Date	Credit terms	Payment method	Revenue derived from the customer	
								(RMB'000)	%
1	Shanghai Dragon Corporation (上海龍頭集團股份有限公司)	a listed company on Shanghai Stock Exchange (stock code: 600630) principally engaged in knitting, home textiles, apparel and international trading	Shanghai, China	Decorative fabrics, imitation silk, tent fabrics and curtain fabrics	8 years	1 month	Telegraphic transfer	68,363	28.2
2	World Sunshine Trading Limited (菱克斯環球貿易有限公司)	a textile fabric trader principally engaged in the resale of textile products to overseas markets	Zhejiang Province, China	Decorative fabrics, sateen and polyester shirt fabrics	7 years	3 months	Telegraphic transfer, documents against payment	30,524	12.6

Rank	Customer	Background	Location	Major types of products sold by us during the Track Record Period	Approximate years of relationship with our Group as at the Latest Practicable Date	Credit terms	Payment method	Revenue derived from the customer	
								(RMB'000)	*%*
3	Huzhou Ningxingyun Foreign Trading Services Limited* (湖州寧興雲外貿服務有限公司)	a textile fabric trader principally engaged in the export of textile products to markets in the Africa, Middle East and South America	Zhejiang Province, China	Imitation silk and brushed fabrics	3 years	1 month	Telegraphic transfer	19,187	7.9
4	Sidney Tadeu Coelho	a textile fabric trader principally engaged in the resale of textile products to South American markets	Zhejiang Province, China	Polyester fabrics, imitation silk, brushed fabrics, tent fabrics and sateen	9 years	2 months	Telegraphic transfer, documents against payment	14,297	5.9
5	LiPeng Textiles LLC	a textile fabric trader principally engaged in the resale of textile products to Asia and Middle East markets	Dubai	Imitation silk, decorative fabrics, brushed fabrics and sateen	12 years	1 month	Telegraphic transfer, letter of credit	11,835	4.9
							Five largest customers combined	144,206	59.5
							Other customers	98,180	40.5
							Total	242,386	100

For the year ended 31 December 2017

Rank	Customer	Background	Location	Major types of products sold by us during the Track Record Period	Approximate years of relationship with our Group as at the Latest Practicable Date	Credit terms	Payment method	Revenue derived from the customer	
								(RMB'000)	*%*
1	Shanghai Dragon Corporation (上海龍頭集團股份有限公司)	a listed company on Shanghai Stock Exchange (stock code: 600630) principally engaged in knitting, home textiles, apparel and international trading	Shanghai, China	Decorative fabrics, imitation silk, tent fabrics and curtain fabrics	8 years	1 month	Telegraphic transfer	75,626	31.7
2	World Sunshine Trading Limited (菱克斯環球貿易有限公司)	a textile fabric trader principally engaged in the resale of textile products to overseas markets	Zhejiang Province, China	Decorative fabrics, brushed fabrics, sateen and polyester shirt fabrics	7 years	3 months	Telegraphic transfer, documents against payment	13,156	5.5
3	Zhejiang Zhaoxin Weaving Co., Ltd. (浙江兆新織造有限公司)	a textile fabric manufacturer principally engaged in processing and trading of textile products, import and export of goods and technology	Zhejiang Province, China	Printing and dyeing service	3 years	1 month	Telegraphic transfer	9,825	4.1
4	Solis Holdings Import & Export Limited (索力斯控股進出口有限公司)	a textile fabric trader principally engaged in the resale of textile products to markets such as Argentina, Mexico and Peru	Shanghai, China	Sateen, brushed fabrics, imitation silk and decorative fabrics	9 years	3 months	Telegraphic transfer, letter of credit	8,253	3.5
5	Yuvraj Trading Co., Limited	a textile fabric trader principally engaged in the resale of textile products to markets such as Indonesia and South Africa	Zhejiang Province, China	Brushed fabrics, imitation silk, T/C fabrics and polyester shirt fabrics	9 years	1 month	Telegraphic transfer, letter of credit	7,270	3.1
							Five largest customers combined	114,130	47.9
							Other customers	124,179	52.1
							Total	238,309	100

For the ten months ended 31 October 2018

Rank	Customer	Background	Location	Major types of products sold by us during the Track Record Period	Approximate years of relationship with our Group as at the Latest Practicable Date	Credit terms	Payment method	Revenue derived from the customer	
								(RMB'000)	*%*
1	Shanghai Dragon Corporation (上海龍頭集團股份有限公司)	a listed company on Shanghai Stock Exchange (stock code: 600630) principally engaged in knitting, home textiles, apparel and international trading	Shanghai, China	Decorative fabrics, imitation silk, tent fabrics and curtain fabrics	8 years	1 month	Telegraphic transfer	68,450	25.0
2	World Sunshine Trading Limited (菱克斯環球貿易有限公司)	a textile fabric trader principally engaged in the resale of textile products to overseas markets	Zhejiang Province, China	Decorative fabrics, brushed fabrics, sateen and polyester shirt fabrics	7 years	3 months	Telegraphic transfer, documents against payment	23,597	8.6
3	Zhejiang Zhaoxin Weaving Co., Ltd. (浙江兆新織造有限公司)	a textile fabric manufacturer principally engaged in processing and trading of textile products, import and export of goods and technology	Zhejiang Province, China	Printing and dyeing service	3 years	1 month	Telegraphic transfer	15,452	5.6
4	Hongkong Henida Daxin Limited	a textile fabric trader principally engaged in the resale of textile products to markets such as Indonesia and Mexico	Zhejiang Province, China	Decorative fabrics, sateen and polyester curtain fabrics	1 year	2 months	Telegraphic transfer, documents against payment	8,830	3.2
5	Shanghai Huada Import and Export Limited Company* (上海市華達進出口有限公司)	a textile fabric trader principally engaged in processing and exporting textile fabrics	Shanghai, China	Brushed fabrics, pongee and polyester shirt fabrics	1 year	2 months	Telegraphic transfer	8,182	3.0
							Five largest customers combined	124,511	45.4
							Other customers	149,750	54.6
							Total	274,261	100

None of our Directors, their respective close associates or any of our Shareholders (whom to the best knowledge of our Directors owned more than 5% of the Shares in issue as at the Latest Practicable Date) had any interest in any of our five largest customers during the Track Record Period.

Overlapping of customers and suppliers

During the Track Record Period, 19 of our customers were at the same time our suppliers. They all mainly engage in textile manufacturing. As textile manufacturing involves a variety of stages and the corresponding machinery may vary, inter-trading among textile manufacturers are common in this industry. During the Track Record Period, we purchased grey fabrics from the overlapping customers and suppliers to meet the demand. On the other hand, we provided most of them processing services, such as dyeing, deforming and texturing, given that they do not possess the necessary machinery and equipment. We also provided to an overlapping customer and supplier chemical fibres. Thereby, the subject being traded from and to the overlapping customers and suppliers were entirely different. For the two years ended 31 December 2017 and the ten months ended 31 October 2018, our revenue generated from the overlapping customers and suppliers amounted to approximately RMB2.8 million, RMB2.4 million and RMB2.2 million, respectively. We also generated other income of approximately RMB0.3 million from one of the overlapping customers and suppliers for the ten months ended 31 October 2018. The amount of purchases from the overlapping customers and suppliers amounted to approximately RMB9.0 million, RMB6.7 million and RMB3.5 million for the two years ended 31 December 2017 and the ten months ended 31 October 2018, respectively.

Our Directors confirmed that negotiations of the salient terms of our sales and purchase from these parties were conducted separately. As a result, the sales and purchases in question were neither inter-connected with nor inter-conditional upon each other. The terms of transactions with the overlapping customers and suppliers were similar to those with our other customers and suppliers, which our Directors considered to be normal commercial terms.

To the best knowledge and belief of our Directors, all overlapping customers and suppliers are Independent Third Parties. None of our Directors, their respective close associates, or any Shareholder who, to the best knowledge of our Directors, owns more than 5% of our issued capital, has any interest in each of the overlapping customers and suppliers during the Track Record Period. Save as disclosed above, to the best knowledge of our Directors, none of our suppliers are also our customers during the Track Record Period.

Major terms of sales contracts

For sale of fabrics, our sales team provides quotations to our customers based on the suggested selling price fixed by the management every month. Once the product sample or prototypes and quotations are accepted by our customers, we will proceed to prepare the sales agreement or sales confirmation. The sample/prototypes will be used as a standard for appraising the end products. We generally do not enter into long-term agreement with our customers for supply of products. The sales confirmation between our customers and us included the general

terms of sales arrangement such as product quantity and price. Detailed payment terms, colour, packaging, delivery terms, quantity and price are included in a separate production instruction provided by our customers.

For provision of printing and dyeing services, our sales team provides quotations to our customers based on the suggested selling price fixed by the management every month. Once the quotations are accepted by our customers, we will proceed to prepare the sales confirmation. We do not enter into long-term agreement with our customers for the provision of printing and dyeing services. The sales confirmation between our customers and us included the general terms of sales arrangement such as product quantity and price. Detailed payment terms, colour, technical requirements, quantity and price are included in a separate production instruction provided by our customers.

Upon receipt of the production instruction from our customers, our sales team will review the orders and our procurement team will check the availability of inventory, source the necessary raw materials and liaise with subcontractors if necessary.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any major disputes with our customers in the major terms of our sales contracts which would materially affect our financial conditions and operating results.

Pricing policy, settlement and credit terms

During the Track Record Period, we adopted a cost-plus policy to determine the selling prices of our products, which principally took into account factors such as costs of materials, labour and manufacturing overhead and markup. The markup varies case by case but is generally determined by factors such as our relationship with the customer, the specifications and functionality of the products and the research and development effort we have expended on the products.

During the Track Record Period, our Group's sales were mainly denominated in RMB and USD. Our customers generally settled our payments by way of telegraphic transfer. We generally grant to our customers a credit period of 30 to 90 days from the dates of goods sold or rendering of services based on factors such as scale of operation, years of relationship with the customer and historical payment record. During the Track Record Period and up to the Latest Practicable Date we had not experienced any major default in payments or bad debts which would materially affect our financial conditions and operating results. For details on the historical impairment of our trade receivables and allowance for doubtful debts, please refer to the section headed "Financial Information – Analysis of financial position – Trade, bills and other receivables" in this prospectus.

Delivery

We arrange packaging and delivering of finished products to our customers according to the agreed terms. For designations in the PRC, we normally arrange our customers to collect the

products at our Huzhou Production Facilities. For sales which our customers intended to deliver the products to other countries, we generally rely on third party logistics companies to deliver our goods to the domestic port on FOB or CIF basis. We are generally required to pay for the transportation costs to the domestic port, before shipping to the customers' designated location. For our provision of printing and dyeing services, our customers generally collect the finished products at our Huzhou Production Facilities. When we are responsible for the payment of part or all of the transportation costs, such costs would be taken into account in calculating the price of our products.

Product return policy and warranty

We carry out internal quality control assessments to ensure that the finished products comply with the specifications or quality standards required by our customers. Our customers inspect and examine the finished products at our Huzhou Production Facilities before delivery to their designated delivery locations or before collecting the finished products. If the customer is not satisfied with the product quality, we may arrange replacement for the returned products on a case-by-case basis.

Our Directors confirm that we did not receive any material complaint from our customers and did not encounter any material incident of product return during the Track Record Period and up to the Latest Practicable Date.

PROCUREMENT

During the Track Record Period, suppliers of goods and services to our Group included mainly (i) suppliers of raw materials and auxiliary materials; (ii) subcontractors of knurling, calendaring, coating and other production processes; and (iii) transportation service providers.

Our principal raw materials for the manufacture and sales of fabrics are grey fabrics and chemical fibres. As for our provision of printing and dyeing services, the principal raw materials are dyes and other additives for fabrics. During the Track Record Period, a portion of the grey fabrics used in our production were manufactured from chemical fibres through weaving in our Huzhou Production Facilities. For the remaining grey fabrics and other raw materials such as chemical fibres, dyes and additives, we sourced them mainly from domestic manufacturers in the PRC. We generally do not enter into any long-term supply agreement with our raw material suppliers. As such, we are free to source raw materials from a number of suppliers. During the Track Record Period, we did not encounter any difficulty in procurement or experience any disruption in production due to shortage of raw materials.

Prices of supplies

Prices of supplies are confirmed by us with reference to the quotations made by the suppliers on an order by order basis. During the Track Record Period, we did not experience any material fluctuations in material costs that had a material impact on our business, financial conditions or results of operations. Please see the section headed "Financial Information – Key

factors affecting our results of operations and financial condition – Materials cost" in this prospectus for a sensitivity analysis of our profit before tax during the Track Record Period based on hypothetical fluctuations in the cost of materials. We did not make any arrangement to hedge fluctuations in market prices of any raw materials we procured during the Track Record Period.

Sales and procurement department

Our procurement staff, is mainly responsible for our procurement process. We formulate our procurement plans of raw materials together with our sales projection and production plan once a month for our sales of fabrics and once a week for our provision of printing and dyeing services. Our ERP system calculates the amount of raw materials we need to procure with reference to (i) our sales confirmation; and (ii) our inventory level of raw materials.

It is the normal practice of our sales and procurement department to keep track of the market prices of raw materials by checking regularly price quotations from our suppliers. Before placing orders with our suppliers, our sales and procurement department will normally make reference to the quotations provided by our suppliers and negotiate for the competitive prices after selecting the supplier.

Basis of selection of suppliers

To ensure that the materials we order meet our quality standards, we conduct regular assessment of our suppliers. Before we engage a new supplier, we have to make sure that he will satisfy the following criteria: (a) compliance with laws and environmental regulations; (b) adequate production capability; (c) acceptable craftsmanship; and (d) ability to meet labour and safety regulations. As a test, our sales and procurement department will place a trial order. We maintain a list of approved suppliers internally and review it annually. As at the Latest Practicable Date, we had over 450 approved suppliers on our list.

During the Track Record Period, our Group has been engaging 548 suppliers in total which included textile manufacturers, machines providers, dyes providers and utility service providers. All of them are located in Zhejiang Province, Jiangsu Province or other provinces in the PRC.

Our major suppliers

For each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, purchases from our largest supplier represented approximately 12.8%, 21.1% and 15.4% of our total purchases, respectively, and purchases from our five largest suppliers accounted for

approximately 34.2%, 46.8% and 44.9% of our total purchase, respectively. The table below sets out the basic information about the five largest suppliers for the periods indicated:

For the year ended 31 December 2016

Rank	Supplier	Business nature	Location	Major types of products purchased by our Group during the Track Record Period	Approximate years of relationship with our Group as at the Latest Practicable Date	Credit terms	Payment method	Purchase derived from the supplier	
								(RMB'000)	*%*
1	Jiangsu Shenghong Xincailiao Group Limited* (江蘇盛虹新材料集團有限公司), formerly known as Jiangsu Shenghong Petroleum and Chemical Group Limited* (江蘇盛虹石化集團有限公司)	Trading	Jiangsu Province, China	Chemical fibres	5 years	Advance payment	Telegraphic transfer	28,663	12.8
2	Tong Kun Group Zhejiang Hengteng Chabie Chemical Fibres Limited* (桐昆集團浙江恒騰差別化纖維有限公司)	Textile manufacturing	Zhejiang Province, China	Chemical fibres	5 years	Advance payment	Telegraphic transfer	24,040	10.7
3	State Grid Zhejiang Changxing County Power Supply Company* (國網浙江長興縣供電有限公司)	Electricity supply	Zhejiang Province, China	Electricity	15 years	Advance payment	Telegraphic transfer	8,956	4.0
4	Tongxiang Zhongying Chemical Fibre Co., Ltd* (桐鄉市中盈化纖有限公司)	Textile manufacturing	Zhejiang Province, China	Chemical fibres	4 years	Advance payment	Telegraphic transfer	8,124	3.6
5	Changxing Weiwen Textiles Limited* (長興偉文紡織有限公司)	Textile manufacturing	Zhejiang Province, China	Oxford fabrics, brushed fabrics, imitation silk and sateen	2 years	1 month	Telegraphic transfer	6,838	3.0
							Five largest suppliers combined	76,621	34.2
							Other suppliers	147,589	65.8
							Total	224,210	100

For the year ended 31 December 2017

Rank	Supplier	Business nature	Location	Major types of products purchased by our Group during the Track Record Period	Approximate years of relationship with our Group as at the Latest Practicable Date	Credit terms	Payment method	Purchase derived from the supplier	
								(RMB'000)	*%*
1	Tong Kun Group Zhejiang Hengteng Chabie Chemical Fibres Limited* (桐昆集團浙江恒騰差別化纖維有限公司)	Textile manufacturing	Zhejiang Province, China	Chemical fibres	5 years	Advance payment	Telegraphic transfer	40,832	21.1
2	Zhejiang Shengbang Fibres Limited* (浙江盛邦化纖有限公司)	Textile manufacturing	Zhejiang Province, China	Chemical fibres	10 years	1 month	Telegraphic transfer	17,775	9.2
3	Zhangxing Huarun Natural Gas Limited* (長興華潤燃氣有限公司)	Natural gas supply	Zhejiang Province, China	Natural gas	2 years	Advance payment	Telegraphic transfer	13,952	7.2
4	State Grid Zhejiang Changxing County Power Supply Company* (國網浙江長興縣供電有限公司)	Electricity supply	Zhejiang Province, China	Electricity	15 years	Advance payment	Telegraphic transfer	10,467	5.4
5	Zhangxing Xincheng Environmental Limited* (長興新城環保有限公司)	Steam and electricity supply	Zhejiang Province, China	Steam	10 years	1 month	Telegraphic transfer	7,397	3.8
							Five largest suppliers combined	90,423	46.8
							Other suppliers	102,727	53.2
							Total	193,150	100

For the ten months ended 31 October 2018

Rank	Supplier	Business nature	Location	Major types of products purchased by our Group during the Track Record Period	Approximate years of relationship with our Group as at the Latest Practicable Date	Credit terms	Payment method	Purchase derived from the supplier	
								(RMB'000)	*%*
1	Tong Kun Group Zhejiang Hengteng Chabie Chemical Fibres Limited* (桐昆集團浙江恒騰差別化纖維有限公司)	Textile manufacturing	Zhejiang Province, China	Chemical fibres	5 years	Advance payment	Telegraphic transfer	36,166	15.4
2	Tongxiang Zhongying Chemical Fibre Co., Ltd* (桐鄉市中盈化纖有限公司)	Textile manufacturing	Zhejiang Province, China	Chemical fibres	4 years	Advance payment	Telegraphic transfer	22,163	9.5
3	Xinfengming Group Huzhou Zhongshi Technology Co., Ltd. (新鳳鳴集團湖州中石科技有限公司)	Textile manufacturing	Zhejiang Province, China	Chemical fibres	2 years	Advance payment	Telegraphic transfer	19,310	8.2
4	Zhangxing Huarun Natural Gas Limited* (長興華潤燃氣有限公司)	Natural gas supply	Zhejiang Province, China	Natural gas	2 years	Advance payment	Telegraphic transfer	16,865	7.2
5	State Grid Zhejiang Changxing County Power Supply Company* (國網浙江長興縣供電有限公司)	Electricity supply	Zhejiang Province, China	Electricity	15 years	Advance payment	Telegraphic transfer	10,862	4.6
							Five largest suppliers combined	105,366	44.9
							Other suppliers	129,106	55.1
							Total	234,472	100

None of our Directors, their respective close associates or any Shareholders who, to the knowledge of our Directors, owned more than 5% of our Company's issued share capital as of the Latest Practicable Date, has any interest in any of our five largest suppliers during the Track Record Period.

We do not enter into long term agreement with our suppliers. We generally make purchases on an one-off purchase orders. The terms of our actual orders are set out in purchase orders we place with them, which include terms such as materials required, quantity, price and delivery time. Save for Changxing Weiwen Textiles Limited* (長興偉文紡織有限公司), Zhejiang Shengbang Fibres Limited* (浙江盛邦化纖有限公司) and Zhangxing Xincheng Environmental Limited* (長興新城環保有限公司) which granted to us a credit period of 30 days, our top five suppliers generally required advance payment for our purchases for the two years ended 31 December 2016 and 2017 and the ten months ended 31 October 2018. Our other suppliers generally granted to us a credit period ranging from 30 to 90 days.

INVENTORY CONTROL

We regulate our inventory level through our ERP system. Our ERP system keeps record of all the ins and outs of our final products and raw materials to and from our warehouse. It calculates the amount of raw materials required for each sales order, taking into consideration the existing inventory level. Our sales and procurement department will source the suggested amount of raw materials accordingly. In addition, physical stocktaking is conducted by our sales and procurement department on a regular basis.

We generally maintain a level of inventory for key materials sufficient for the use of 30 to 45 days to ensure that we can meet without disruption our major customers' orders, taking into account our production lead time and the delivery schedules.

Please refer to the section headed "Financial Information – Analysis of financial position – Inventories" in this prospectus for detailed analysis of our inventory balances and inventory turnover days during the Track Record Period.

QUALITY CONTROL

As at the Latest Practicable Date, the quality control team of our production department comprised three staff. We are strongly committed to maintaining a high level of product quality and have established accordingly a stringent quality control system in the course of our production, which we believe is one of the principal factors contributing to our success. We have a manual which is prepared with full reference to the requirements under applicable national and industry standards in place.

Huzhou Narnia has achieved the ISO 9001:2015 certification issued by Beijing ZhongJing Quality Certification Co., Ltd. (北京中經科環質量認證有限公司), which is an entity endorsed by China National Accreditation Board for Certifiers (中國合格評定國家認可委員會), for our ability to comply with application standards in relation to quality control.

Incoming raw materials

We conduct inspections and checks in each key stage of the production process on a sampling basis. First-round inspection will be conducted upon delivery to ensure the quantity and colour of the delivered grey fabrics from our suppliers are in accordance with the sales contract. We further conduct and record sampling tests, say the quality, density, colour, width and length of the grey fabrics, to ensure that sub-standard grey fabrics will not pass to the next stage of production. Upon discovery of any defects, we will arrange for the return of supplies or a reduction of purchase prices.

Semi-finished goods

Apart from carrying out inspection at the beginning of the production of new orders, we would examine in the fabric-setting stage, such as the cleanliness of the fabrics, to ensure our products adhere strictly to our customers' requirements and our quality standards.

Finished goods

We conduct and record sample laboratory tests on our finished fabrics to assess their degree of conformity, defective fabrics will be earmarked for further detailed analysis to clarify the underlying problems. Our supervisor of quality control staff is responsible for review and approval of the quality test reports. Depending on the degree of defect, these products shall either be sent back to the production department for repair or simply be discarded.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, (i) our products were generally accepted by our customers; (ii) we did not receive any material claims or complaints from our customers in respect of the quality of our products; and (iii) there was no incident of failure of our quality control systems which had a material and adverse impact on our business operation.

Equipment and equipment inspection

We employ more advanced quality control equipment as far as possible. We employ the "Tecnorama" automated dripping and proofing system to determine whether the dyes and additives we apply meet the required standard. We use the standard light source light box used nation-wide to compare the dyed colours. We also employ fully automated cloth inspection and rolling machine and Datacolor equipment imported from the United States. To ensure that our equipment is functioning properly, we conduct scheduled inspections.

Managing quality problems

In the event of anomalies discovered during inspection, we would instantly report to the relevant units and the senior management, so that we can resolve the problem with the parties concerned as quickly as possible.

Not only do we solve problems case by case, but we will also bring up these cases to a higher level for discussion and research, with a view to rooting out such problems once and for all and thereby enhancing our overall quality level.

RESEARCH AND DEVELOPMENT

Our Directors believe that our strong research and development capabilities are critical to our success and will continue to drive the growth of our business and maintain our competitiveness in the industry. We also conduct market research to keep abreast of the latest trend in the clothing and textile industry.

Recognised laboratory with advanced machinery and equipment

Our laboratory is located in our Huzhou Production Facilities with a gross floor area of over 1,000 sq.m. and equipped with advanced machinery and equipment. Set out below are two of our advanced machinery in our laboratory:

Machine	Functions
Tecnorama automated dripping and proofing system* (Tecnorama 自動滴液試樣系統) 	• Stimulation of real workshop-production in our production process • Production of sample products • Testing of dyeing effects
Colorservice automated weighing system and fully automated pulp mixing and calibrating system* (Colorservice自動稱料系統及全自動調漿配液系統) 	• Calibration and mixing of dyeing inputs in precise proportion • Connecting to the production line with centralised and automated control

Our research and development projects and results

Since the establishment of our laboratory in 2003, we have enhanced our research and development capabilities focusing in various aspects including texture and functionality of our products, production technology and environmental protection enhancement. In 2016, our wax-dyed imitation cotton (仿棉蠟染布) and twisted jacquard (仿絞棕提花布) developed from our laboratory, were awarded the China Chemical Fibre Excellence Boutique Gold Award* (中國化纖面料名優精品金獎) and China Chemical Fibre Excellence Boutique Award* (中國化纖面料名優精品獎) by China Filament Weaving Committee* (中國長絲織造協會) respectively. As a result of the efforts by our dedicated research team, we were able to offer different types of fabrics to our customers during the Track Record Period. As at the Latest Practicable Date, we had registered four invention patents, which are all developed by us, and nine utility model patents, and six utility model patents and one invention patent are under applications in relation to certain products, production techniques and dyeing methods. For details of our patents, please refer to the paragraph headed "Intellectual property rights – Patents" in Appendix V to this prospectus.

With a view to strengthening our research and development capabilities on textile products and to enhancing our existing production techniques, we have been collaborating with academic institutions to research and develop technologies used in our fabric products and enhance production efficiency. Since the establishment of our laboratory, we have entered into co-operation agreements with various universities and institutions such as Zhejiang Sci-Tech University (浙江理工大學) and Xi'an Polytechnic University (西安工程大學). Major research projects completed and currently undertaken include united folding, rolling and packaging technology, automated and high-precision dye delivery system, pre-dyeing uncoiling synchronisation technique, integrated setting machines, automated weighing control system, fully automated re-cycling of waste residue technique and automated dripping control system.

As a result of our accomplishment in research and development, in June 2017, our laboratory was recognised by the Economy and Information Commission of Zhejiang Province* (浙江省經濟和信息化委員會) as a Province-level Industrial Design Centre* (浙江省省級工業設計中心). We have been appointed as one of the members of the drafting committee of the industry technical standards of certain new fabric types, i.e. polyester painted foil fabric (滌綸燙金面料) and cotton wax imitation printed fabric (純棉仿蠟印花布), to be published by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和訊息化部). We have also been recognised by Science and Technology Department of Zhejiang Province* (浙江省科學技術廳), Zhejiang Provincial Department of Finance* (浙江省財政廳), Zhejiang Provincial State Taxation Bureau* (浙江省國家税務局) and Zhejiang Local Taxation Bureau* (浙江省地方税務局) as a High and New Technology Enterprise* (高新技術企業) since 2014. We believe our strong research and development capabilities and efforts have provided us with the advantages of improving production efficiency, diversifying our products, meeting customers' different requirements and reduction of production costs.

Product development in accordance with the needs of our customers

In some cases, our customers may request for fabrics with certain features or specifications. With our research and development capability, we are able to meet the requirements of our customers for fabrics and to respond to market trends and promote these new fabrics to our existing and potential customers. Our Directors believe that this has enhanced our close relationship with our customers and provided us insights into and trends in the textile fabric production industry.

MARKET COMPETITION

According to Frost & Sullivan Report, the competitive landscape of the textile fabric manufacturing & printing and dyeing industry in the PRC are fragmented with over thousands of players manufacturing different types of fabric products. In 2017, the top five textile fabric manufacturers in the PRC contributed to approximately 1.6% of the overall textile fabric manufacturing industry. On the other hand, the consumer market is characterised by the constantly changing requirement in terms of products design and functions. Market participants with research and development capabilities to adapt to consumers' changing demand will be a competitive edge against the others.

With our competitive strengths and business strategies set out in the paragraphs headed "Competitive strengths" and "Business strategies" in this section, respectively, we believe that we will continue to maintain our market position in the competitive business environment. For more details, please refer to the section headed "Industry Overview" in this prospectus.

INSURANCE

We contribute to social security insurance for our full-time employees in accordance with the relevant PRC laws and regulations, which includes contributions for basic pension insurance, basic medical insurance, occupational injury insurance, maternity insurance and unemployment insurance. We also maintain insurance coverage against potential losses or damages arising from industrial risk and natural disasters including but not limited to fire, flood and storm in respect of our production facilities and raw materials in our production sites.

We do not maintain product liability insurance or third-party liability insurance for claims of personal injury or property damage arising from accidents relating to our operations, which are not mandatory under PRC laws and regulations. Please refer to the section headed "Risk Factors – Risks relating to our business – We may not have adequate insurance coverage and payments for any uninsured liabilities and loss may adversely affect our financial conditions etc.." in this prospectus.

We believe that our insurance coverage is adequate for our operations and in line with industry practice in PRC. As at the Latest Practicable Date, we had not made, nor been the subject of, any material insurance claim.

ENVIRONMENTAL PROTECTION

Our business is subject to the PRC's environmental laws and regulations as well as environmental regulations promulgated by the local governments where our Group operates. Our Group is committed to operating in a manner that complies with applicable environmental laws and regulations.

Our Group established a waste management policy to ensure proper disposal of waste from our operation so as to minimise adverse effects on the environment. Such waste management policy mainly covers two aspects (i.e. the wastewater and solid waste) and its highlights are as follows:

1. we monitor our wastewater quality and engage independent wastewater treatment plant operator to treat wastewater produced from our production facilities so that all our discharged wastewater complies with the requirements of the latest Discharge Standard of Waste Water of Textile, Dyeing and Finishing Industry (《紡織染整工業水污染物排放標準》). Our wastewater is usually stored in a cesspool and transmissed via connecting pipes to the wastewater treatment plant or transmissed to the wastewater treatment plant from our production facilities directly. Our staff monitor the quality of the wastewater in the cesspool and the condition of the cesspool and pipes on a daily basis; and

2. we gather all solid waste at a waste storage point and engage independent service provider to manage such storage and waste disposal. We keep in and out records of the solid waste from and to our waste storage point. As at the Latest Practicable Date, our Group has engaged two independent service providers to manage our solid waste and to ensure compliance with the requirements of the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》). These companies assist our Group in transferring the solid waste to a proper place for disposal.

Waste produced by our Group is treated at our production facilities in compliance with applicable environmental standards. During the Track Record Period, we installed advanced environmental protection equipment and we paid appropriate waste disposal charges.

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, our Group complied with all the applicable laws and regulations in the PRC relating to environmental protection in all material respects, and no penalty was imposed on our Group by any PRC governmental authorities in relation to any environmental matters.

For each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, our cost of compliance with the applicable environmental rules and regulations was approximately RMB140,000, RMB69,000 and RMB308,289, respectively. Our Directors are of the view that the annual cost of compliance with applicable environmental laws and regulations was not material during the Track Record Period and the cost of such compliance is not expected

to be material going forward credited to our continuous environment protection enhancement during the years and our advanced machinery and equipment which are environmental-friendly.

HEALTH AND OCCUPATIONAL SAFETY

We provide safety education and training to employees and have in place safety guidelines and operating manuals for our production process. We also provide our employees with training programmes on work safety in connection with matters such as the operation of our equipment with a view to enhancing occupational safety and to minimising the possibility of work-related accidents and injuries as well as occupational illness. Our Directors confirm that we did not encounter material work safety accidents during the Track Record Period and up to the Latest Practicable Date.

As advised by our PRC Legal Advisers, we had complied with all applicable production safety laws and regulations in the PRC in all material respects during the Track Record Period and up to the Latest Practicable Date.

EMPLOYEES

As at 31 December 2016 and 2017, 31 October 2018 and the Latest Practicable Date, we had 219, 332, 395 and 393 employees, respectively. The following table shows a breakdown of our staff by function as at the Latest Practicable Date:

Functions	**Number of employees**
Production	304
Research and Development	49
Accounting and Finance	8
Administration and Management	23
Sales and Procurement	9
Total	393

Remuneration

In accordance with PRC labour law, we have written employment contracts with our employees. The remuneration packages include salaries, overtime pay and performance related bonuses, as well as our contributions to the statutory social security insurance. In general, we design the remuneration package based on qualifications and performance and we conduct an annual review and appraisal for our employees. We believe the remuneration package of our employees is competitive in comparison with the prevailing market rates.

Training and recruitment policies

We have a staff handbook which sets out the responsibilities of our staff, codes of conduct, and our safety and hygiene requirements on the production site. Newly recruited employees are required to attend a safety training course so that they can be familiarised with the safety standards which they are required to meet during production and in their handling of production equipment. We also provide regular in-house safety education and training to our employees or send them to attend training sessions held by outside authorities related to the operation of production facilities, fire safety and work safety. We generally recruit our workforce through online platforms and regional job fairs.

Staff benefit

In the PRC, our Group has participated in the basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance, maternity insurance prescribed by the Social Insurance Law of the PRC (中華人民共和國社會保險法) which was promulgated on 28 October 2010 and became effective on 1 July 2011.

Our Directors, as advised by our PRC Legal Advisers, have confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group had complied with the relevant labour and social insurance laws and regulations in the PRC in all material respects, and no penalty was imposed on our Group by any PRC governmental authorities in relation to any labour and social insurance matters.

Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme, under which the employees of our Group, including executive Directors and other eligible participants, may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in the paragraph headed "D. Share Option Scheme" in Appendix V to this prospectus.

INTELLECTUAL PROPERTIES

As at the Latest Practicable Date, our Group had registered one trademark in Hong Kong, and four trademarks, 13 patents, two software copyrights in the PRC as well as two domain names which are material to our business. As at Latest Practicable Date, we had made seven patent applications in the PRC and each registration vetting process is pending. For details of our intellectual property rights, see "B. Further information about the business of our Group – 2. Intellectual property rights" in Appendix V to this prospectus.

As at the Latest Practicable Date, we were not involved in any proceedings and had not received notice of any claim of infringement with regard to any intellectual property rights that may be threatened or pending, in which we may be involved either as a claimant or respondent.

PROPERTY

Owned properties

As at the Latest Practicable Date, we owned eight parcels of land and the buildings erected on the land with an aggregate gross floor area of 44,309.5 sq.m.. The following table summarises the information regarding our owned property as at the Latest Practicable Date:

Address	Site area *(sq.m.)*	Gross floor area of the building(s) *(sq.m.)*	Use of the property	Type of ownership	Leasehold expiry date
Hongqi Village, Jiapu Town, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣夾浦鎮紅旗村)	11,671.0	5,903.1	Industrial use	Leasehold	11 February 2063
Industrial Park, Jiapu Town, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣夾浦鎮工業園區)	19,770.0	37,007.0	Industrial use	Leasehold	12 October 2053
No. 1 Rongjun Road, Zhicheng Street, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣雉城街道榮軍路1號)	58.1	136.4	Commercial use	Leasehold	10 January 2046
No.37-1 Mingzhu 2nd Road, Zhicheng Street, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣雉城街道明珠二路37-1號)	37.5	74.8	Commercial use	Leasehold	5 June 2035

Address	Site area *(sq.m.)*	Gross floor area of the building(s) *(sq.m.)*	Use of the property	Type of ownership	Leasehold expiry date
North District, 2/F, Block 12, Zhongma Community, Zhicheng Street, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣雉城街道中馬小區12幢2層北區)	411.7	820.5	Commercial use	Leasehold	5 June 2035
No. 7 Rongjun Road, Zhicheng Street, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣雉城街道榮軍路7號)	53.7	126.2	Commercial use	Leasehold	10 January 2046
No. 9 Rongjun Road, Zhicheng Street, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣雉城街道榮軍路9號)	35.7	83.8	Commercial use	Leasehold	10 January 2046
No. 3 Rongjun Road, Zhicheng Street, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣雉城街道榮軍路3號)	67.2	157.7	Commercial use	Leasehold	10 January 2046

As at 31 October 2018, no single property interest forming part of our Group's property activities had a carrying amount of 1% or more of our total assets and no single property interest forming part of our Group's non-property activities had a carrying amount of 15% or more of our total assets. Thus, this prospectus is exempted from compliance with the requirements of Rules 8.01A and 8.01B of the GEM Listing Rules and the requirements of section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, with respect to the inclusion of a property valuation report in this prospectus.

AWARDS AND CERTIFICATES

The following table sets out the major certificates granted to us as at the Latest Practicable Date:

Award/Certificate	Awarding authority/Accrediting body	Month of award
Certificate of High and New Technology Enterprise* (高新技術企業證書)	Jointly issued by Science and Technology Department of Zhejiang Province* (浙江省科學技術廳), Zhejiang Provincial Department of Finance* (浙江省財政廳), Zhejiang Provincial State Taxation Bureau* (浙江省國家税務局) and Zhejiang Province Local Taxation Bureau* (浙江省地方税務局)	October 2014 November 2017
Textile Manufacturing Industry "Double Innovation" Platform Model Construction* (紡織製造業「雙創」平台示範建設)	Economy and Information Commission of Zhejiang Province (浙江省經濟和信息化委員會)	October 2018
Huzhou City Four-star Green Factory* (湖州市四星級綠色工廠)	Huzhou City Create "Made in China 2025" Pilot Model City Leadership Group Office* (湖州市創建「中國製造2025」試點示範城市領導小組辦公室)	November 2018
China Chemical Fibre Excellence Boutique Gold Award* (中國化纖面料名優精品金獎)	China Filament Weaving Committee* (中國長絲織造協會)	June 2016 June 2017
China Chemical Fibre Excellence Boutique Award* (中國化纖面料名優精品獎)	China Filament Wearing Committee* (中國長絲織造協會)	April 2016

Award/Certificate	Awarding authority/Accrediting body	Month of award
Quality Management System Certification *in conformity with ISO 9001:2015 standard* (質量管理體系認證證書 *(符合ISO 9001:2015標準)*)	Beijing ZhongJing Quality Certification Co., Ltd (北京中經科環質量認證有限公司)	June 2017
Certificate of Management System for Energy *in conformity with GB/T 23331-2012/ISO 50001:2001 and RB/T102-2013* (能源管理體系認證證書 *(符合GB/T23331-2012/ISO 50001:2001及RB/T 102–2013標準)*)	Ever Win Quality Certification Centre (埃爾維質量認證中心)	December 2013
Environmental Management System Certification *in conformity with GB/T 24001-2016/ISO 14001:2015 standard* (環境管理體系認證證書 *(符合GB/T 24001-2016/ISO 14001:2015標準)*)	Beijing ZhongJing Quality Certification Co., Ltd (北京中經科環質量認證有限公司)	June 2017

Award/Certificate	Awarding authority/Accrediting body	Month of award
Occupational Health and Safety Management System Certification *in conformity with GB/T 28001-2011/OHSAS 18001:2007 standard* (職業健康安全管理體系認證證書 *(符合GB/T 28001-2011/OHSAS 18001:2007標準)*)	Beijing ZhongJing Quality Certification Co., Ltd (北京中經科環質量認證有限公司)	June 2017
Zhejiang Province Technology-based Small to Medium Enterprise Certificate* (浙江省科技型中小企業證書)	Science and Technology Department of Zhejiang Province* (浙江省科學技術廳)	December 2014
Certificate of Credit Rating (信用等級證書)	Zhejiang Zhongcheng Credit Rating Co., Ltd (浙江眾誠資信評估有限公司)	September 2012 September 2013 October 2015 November 2017
Top 50 Economic Efficiency Indicators* (經濟效益指標50強)	Jointly issued by China Filament Weaving Committee* (中國長絲織造協會) and China Textile Industrial Federation* (中國紡織工業聯合會)	April 2016 April 2017 March 2018

LICENCES AND PERMITS

Set out below are the key licences and permits required under the relevant PRC laws and regulations for us to carry on our textile manufacturing, printing and dyeing business which we have obtained:

Licence/Permit	Awarding authority/ Accrediting body	Date of award	Date of expiry
Operation Permit (營業執照)	Huzhou Administration of Commerce Bureau* (湖州市工商行政管理局)	5 August 2002 (Huzhou Narnia) 23 October 2012 (Changxing Seashore)	4 August 2052 (Huzhou Narnia) 22 October 2027 (Changxing Seashore)

Licence/Permit	Awarding authority/ Accrediting body	Date of award	Date of expiry
Legal Representative Operation Permit (企業法人營業執照)	Huzhou Administration of Commerce Bureau* (湖州市工商行政管理局)	5 August 2002 (Huzhou Narnia) 23 October 2012 (Changxing Seashore)	4 August 2052 (Huzhou Narnia) 22 October 2027 (Changxing Seashore)
Pollutant Discharge Permit (排污許可證)	Changxing County Environment Protection Bureau* (長興縣環境保護局)	19 December 2017	18 December 2020
Foreign Enterprise Investment Certificate* (企業境外投資證書)	People's Republic of China Minister of Commerce* (中華人民共和國商務部)	21 November 2013	20 November 2023
Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the People's Republic of China (中華人民共和國台港澳僑投資企業)	People's Government of Zhejiang Province (浙江省人民政府)	17 October 2012	16 October 2027
Financial Registration for Enterprises with Foreign Investment (外商投資企業財政登記證)	Changxing County Financial Bureau* (長興縣財政局)	23 October 2012	22 October 2027

As advised by our PRC Legal Advisers, (i) we had obtained all licences, permits and approvals in all material respects for our business operations in the PRC during the Track Record Period and up to the Latest Practicable Date; (ii) our business operations were generally carried out in compliance with the relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date; and (iii) based on the current applicable PRC laws and regulations, there will not be any material legal impediment for us to renew our existing licences, permits and approvals.

LEGAL PROCEEDINGS AND COMPLIANCE

Save for the non-compliance incident set out below, our Directors are not aware of any material non-compliance of our Group with the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Non-compliant bill financing

Background

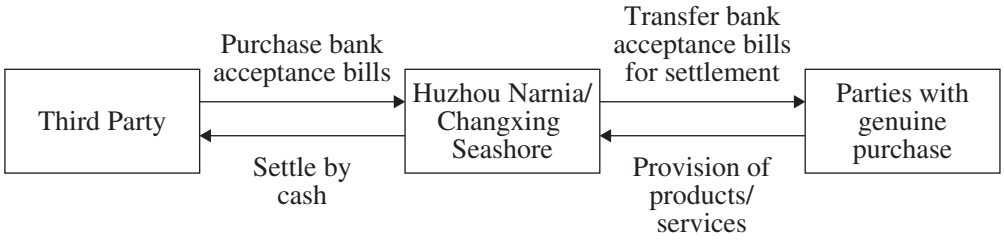
From 1 January 2016 to 1 May 2017, our PRC subsidiaries, being Huzhou Narnia and Changxing Seashore, entered into some non-compliant bill financing arrangements with Independent Third Parties (the "**Non-compliant Bill Financing Arrangements**").

The Non-compliant Bill Financing Arrangements occurred under the following two scenarios:

Scenario (1)

Huzhou Narnia and Changxing Seashore purchased bank acceptance bills from two Independent Third Parties without underlying transactions (who were introduced by a former director of Huzhou Narnia (the "Former Director", who also approved the Non-compliant Bill Financing Arrangements), but they were not customers nor suppliers of our Group), and further transferred those bills to other third parties for settling the genuine purchase payment.

The following diagram illustrates the process involved in scenario (1):



According to our PRC Legal Advisers, as Huzhou Narnia and Changxing Seashore used bank acceptance bills which were purchased from third parties without underlying transactions to settle the genuine purchase payment, such arrangement was not in compliance with the Negotiable Instruments Law of the PRC (中華人民共和國票據法).

Scenario (2)

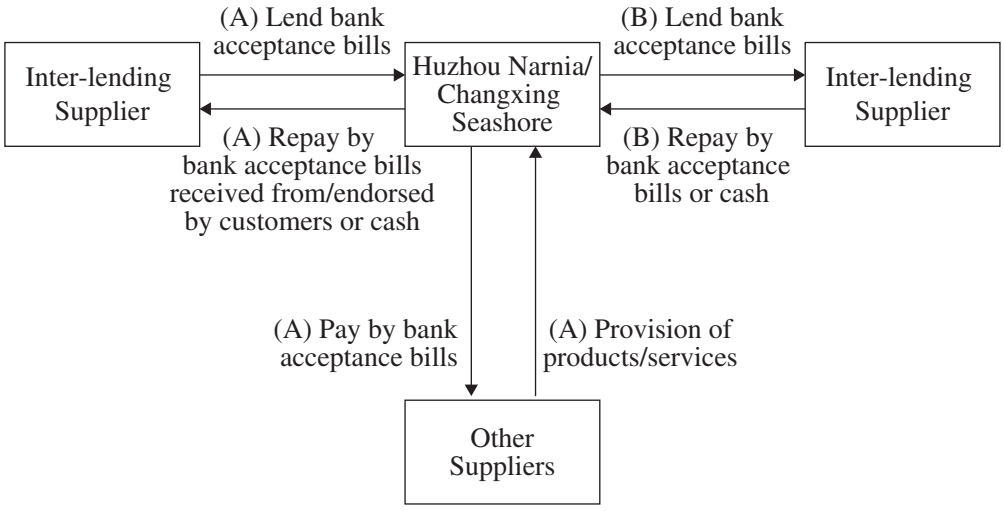
Huzhou Narnia and Changxing Seashore engaged in inter-lending of bank acceptance bills with two of their suppliers (the "**Inter-lending Suppliers**").

Huzhou Narnia and Changxing Seashore borrowed bank acceptance bills from the Inter-lending Suppliers for settling payments to other suppliers (the "**Other Suppliers**"), where Huzhou Narnia and Changxing Seashore subsequently repaid by bank acceptance bills received from or endorsed by customers or by cash (see scenario (2)(A) in the diagram below). When Huzhou Narnia and Changxing Seashore borrowed bank acceptance bills

from the Inter-lending Suppliers, such borrowing was not supported by genuine underlying transactions. As advised by our PRC Legal Advisers, such borrowing of bank acceptance bills was not in compliance with the Negotiable Instrument Law of the PRC. However, when Huzhou Narnia and Changxing Seashore settled payments to the Other Suppliers, such transaction was supported by genuine transactions and did not breach the Negotiable Instrument Law of the PRC.

On the other hand, Huzhou Narnia and Changxing Seashore had lent their bank acceptance bills received from or endorsed by customers to the Inter-lending Suppliers where the Inter-lending Suppliers repaid us by bank acceptance bills or by cash (see scenario (2)(B) in the diagram below). When Huzhou Narnia and Changxing Seashore lent their bank acceptance bills to the Inter-lending Suppliers, such lending was not supported by genuine underlying transactions. As advised by our PRC Legal Advisers, such lending of bank acceptance bills was not in compliance with the Negotiable Instrument Law of the PRC.

The following diagram illustrates the process involved in scenario (2):



While the aforesaid inter-lending arrangements of bank acceptance bills between Huzhou Narnia, Changxing Seashore and the Inter-lending Suppliers were not in compliance with the Negotiable Instruments Law of the PRC, the bank acceptance bills lent by Huzhou Narnia, Changxing Seashore or the Inter-lending Suppliers were obtained through genuine transactions, the funds obtained were not used for other purposes, no fraudulent activities were involved and the relevant banks had not incurred any loss as a result of the bill financing arrangement in scenario (2).

As advised by our Directors, the principal reasons for our involvement in the Non-compliant Bill Financing Arrangements were to obtain additional source of financing to cope with the expansion of our business operation. Huzhou Narnia and Changxing Seashore obtained short-term financing by borrowing bank acceptance bills to pay the Other Suppliers and repaid when they received bank acceptance bills or cash from their customers. If Huzhou Narnia

or Changxing Seashore obtained bank acceptance bills from banks directly, Huzhou Narnia or Changxing Seashore would have to pay a deposit of 50% of the value of the bank acceptance bill to the bank and the cycle of such bank acceptance bills would be at least 6 months. As such, by engaging in the Non-compliant Bill Financing Arrangements, Huzhou Narnia or Changxing Seashore increased their capital turnover efficiency. At the same time, by lending bank acceptance bills to the Inter-lending Suppliers, Huzhou Narnia and Changxing Seashore provided an additional source of financing to the Inter-lending Suppliers. The Non-compliant Bill Financing Arrangements were approved by the Former Director who was responsible for managing the supply department of Huzhou Narnia. She confirmed that she was unaware that the Non-compliant Bill Financing Arrangements were not in compliance with the relevant PRC laws and regulations when she approved such arrangements.

Our Directors only became aware of the Non-compliant Bill Financing Arrangements were not in compliance with the relevant PRC laws and regulations when our Group conducted the annual audit for the year ended 31 December 2016 in early 2017. Our Group has ceased all the Non-compliant Bill Financing Arrangements since 2 May 2017.

The table below sets forth, for the year/period indicated, a breakdown of the amount of bank acceptance bills purchased/borrowed by our Group, transferred to third parties and settled by cash by our Group:

	Approximate amount of bank acceptance bills purchased/borrowed by our Group *(RMB'000)*	**Approximate amount of bank acceptance bills transferred to third parties** *(RMB'000)*	**Approximate amount of bank acceptance bills settled by cash by our Group** *(RMB'000)*
For the year ended 31 December 2016	29,981.7	30,329.6	(348.0)
For the period between 1 January 2017 and 1 May 2017	14,819.8	100.0	14,719.8

The effect on our financial position was not material

Assuming our Group did not enter into the Non-Compliant Bill Financing Arrangements and had instead obtained bank borrowings from banks (based on an average cycle of the inter-lending of bank acceptance bills was 30 days), our Group would have incurred interest expenses of approximately RMB147,100 and RMB500 for the year ended 31 December 2016 and the period between 1 January 2017 and 1 May 2017, respectively. As such, the interest expenses saved by our Group under the Non-compliant Bill Financing Arrangements during the year ended 31 December 2016 and the period between 1 January 2017 and 1 May 2017 was approximately

RMB147,100 and RMB500, respectively, representing approximately 1.78% and 0.01% of our total finance costs during the same periods, respectively.

Our Directors are of the view that the Non-compliant Bill Financing Arrangements did not have any material impact on our operations because (1) our Group did not result in actual increase or decrease in the cash flow of our Group; and (2) the interest expenses saved by our Group under the Non-compliant Bill Financing Arrangements only represented a small percentage of our total finance costs during the same period.

Confirmation from the relevant government authorities

In connection with the Non-compliant Bill Financing Arrangements entered into by Huzhou Narnia and Changxing Seashore, we have obtained a written confirmation from Changxing County branch of the People's Bank of China (中國人民銀行長興縣支行) in confirming that the bank did not impose any administrative penalties on Huzhou Narnia and Changxing Seashore.

According to our PRC Legal Advisers, Changxing County branch of the People's Bank of China is the relevant and competent regulatory authority to issue the above confirmation.

We have also obtained a written confirmation from the Finance Affairs Office of the Changxing County People's Government (長興縣金融工作辦公室) confirming that:

(1) no fraud was involved in the Non-compliant Bill Financing Arrangements;

(2) the relevant banks did not incur any loss as a result of the Non-Compliant Bill Financing Arrangements;

(3) the Non-Compliant Bill Financing Arrangements were not material non-compliance; and

(4) it has not imposed any administrative penalties on Huzhou Narnia and Changxing Seashore for the Non-compliant Bill Financing Arrangements.

According to our PRC Legal Advisers, Financial Office of the Changxing County People's Government is the competent authority in relation to the financial related matters of Huzhou Narnia and Changxing Seashore, and therefore is the appropriate regulatory authority to issue the above confirmations.

Opinion of our PRC Legal Advisers

We are advised by our PRC Legal Advisers that the Non-compliant Bill Financing Arrangements were not in compliance with Article 10 of the Negotiable Instruments Law (中華人民共和國票據法), which provides that bank acceptance bills must be issued on the basis of actual underlying transactions.

Further, according to our PRC Legal Advisers, there are no specific provisions in the Negotiable Instruments Law or any relevant laws that impose any administrative or criminal liability for the Non-compliant Bill Financing Arrangements.

Our PRC Legal Advisers are of the view that the chance of Huzhou Narnia and Changxing Seashore being penalised for the Non-compliant Bill Financing Arrangements by the competent authority is remote because (1) no fraud was involved in the Non-compliant Bill Financing Arrangements; (2) the relevant banks did not incur any loss as a result of the Non-Compliant Bill Financing Arrangements; (3) there are no specific provisions in the Negotiable Instruments Law or any relevant laws that impose any administrative or criminal liability for the Non-compliant Bill Financing Arrangements; (4) each of Huzhou Narnia and Changxing Seashore had ceased the Non-compliant Bill Financing Arrangements since 2 May 2017; (5) there has been no dispute in connection with the Non-compliant Bill Financing Arrangements brought against our Group; and (6) no administrative penalties had been imposed against Huzhou Narnia or Changxing Seashore for the Non-compliant Bill Financing Arrangements.

Enhanced Internal Control Procedures

We have ceased entering into any new Non-compliant Bill Financing Arrangements since 2 May 2017. To prevent reoccurrence of this non-complaint incident, we have adopted the following internal control measures in relation to bill financing arrangements:

- implementation of internal guidelines and policies for approving, reporting and monitoring bill financing transactions;

- our accounting and finance department shall keep all bank acceptance bills and record of details of such bills in our internal register;

- adoption of an internal policy that non-compliant bill financing is prohibited;

- announcement addressed to our senior management members that bill financing without underlying transactions will not be approved;

- application for payment to suppliers by bank acceptance bills shall be submitted to the accounting and finance department together with the relevant agreements. Our accounting and finance department and financial controller shall review the genuineness of the information contained in the application and such application has to be approved by our general manager;

- bank acceptance bills shall be reviewed by our accounting and finance department and financial controller and to be approved by our general manager before acceptance;

- any single transaction involving payment by or acceptance of bank acceptance bill for more than RMB5,000,000 shall be approved by the Board;

- our accounting and finance department shall conduct internal review on our internal control system in relation to bill financing arrangements on a half-yearly basis; and

- our audit committee, which comprises three independent non-executive Directors, will supervise and conduct regular review on our internal control system after the Listing.

The internal control adviser reviewed the design and implementation of the enhanced internal control measures in relation to the bill financing arrangements at Huzhou Narnia and Changxing Seashore for the period from 1 April 2017 to 31 March 2018 and has reported to our Company that Huzhou Narnia and Changxing Seashore has optimised the design of internal control system to prevent the reoccurrence of non-compliant bill financing. The internal control adviser conducted a follow-up review on our internal control measures in relation to the bill financing arrangements for the period from 1 April 2018 to 31 December 2018 in January 2019 and confirmed that there was no material deficiency in our Group's internal control system on our bill financing arrangements.

Based on the foregoing, our Directors confirm that our enhanced internal control procedures are adequate and effective in preventing future non-compliance in relation to bill financing arrangements.

Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to fully indemnify us against, among other things, any and all liabilities arising from the Non-compliant Bill Financing Arrangements.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Directors believe that internal control and risk management are crucial to the development and success of our business operation. In May 2018, our Group has engaged an advisory firm as our independent internal control adviser (the "**IC Adviser**"), to perform a review of internal controls based on the agreed scope of our Group during the period from April 2017 to March 2018 (bill financing arrangements from April 2017 to December 2018) and provide recommendations on the findings identified so as to assist our Group in improving its internal control and risk management systems and corporate governance and in complying with applicable laws and regulations.

In May 2018, the IC Adviser completed the first review of our internal control system on, among others, our control environment, risk management, information and communication, monitoring of controls, operation level controls such as revenue management process, cost of sales management process, expenditure management process, human resources and payroll management, cash and treasury management, fixed assets management, taxation management, information technology, financial reporting and disclosure controls and compliance procedures with the Corporate Governance Code.

Save as disclosed above in relation to the non-compliant bill financing, the major findings and recommendations of the IC Adviser in such review, and our corresponding actions taken based on its recommendations are as follows:

	Internal control review findings	Recommendations	Measures taken by our Group
1.	Absence of policies and procedures to govern access to confidential information and to manage confidential documents.	Establish policies and procedures to strengthen confidentiality management and supervise its implementation.	Recommendation adopted. We have formulated and implemented policies titled "Information System User and Authority Management System" and "Document Management System".
2.	Lack of a comprehensive accounting system to clearly define the operational principles and methods for specific accounting tasks.	Formulate and adopt a comprehensive accounting system and ensure its compliance with the latest applicable laws and rules from time to time.	Recommendation adopted. We have drew up and adopted the policy titled "Accounting System" and will review so from time to time to ensure compliance.
3.	Poor pricing system for sales. The benchmark price lists did not cover all products of our Group.	Improve the benchmark price lists on a regular basis taking into account factors such as the market situation and profit forecast. Any adjustment made on the list shall be approved by the management of our Group.	Recommendation adopted. The benchmark price lists have been revised and approved by the management of our Group.
4.	Lack of a formal selection process of suppliers.	Establish standard and objective procedures for choosing suppliers according to our Group's business nature and scale of operation; request price quotes from suppliers in writing; and obtain internal approval for final selection.	Recommendation adopted. We have formulated and implemented the written approval process for selecting suppliers.

Internal control review findings	Recommendations	Measures taken by our Group
5. Inadequate policies and procedures to govern contracts' approval.	Establish a formal contract approval process involving all relevant departments and the management of our Group; record all comments from relevant departments in writing.	Recommendation adopted. All contracts shall now be circulated to all relevant departments for approval prior to execution according to our policy titled "Contract Management System".

The IC Adviser completed a follow-up review in August 2018. As of the Latest Practicable Date, we confirm that there was no material deficiencies in our Group's internal control system.

Further to the above, we have adopted the recommendations of the IC Adviser and established relevant policy and regimes in areas including but not limited to sales management, supplier management, intangible asset management, fixed asset management, tax management and stock management. Our Group will also regularly review and continue to modify our existing internal control measures so as to build up a comprehensive internal control system.

Moreover, our Group has, *inter alia*, (i) designated our compliance officer to assist our Board to oversee and monitor due compliance with laws, rules and regulations applicable to our Group; (ii) appointed three independent non-executive Directors to ensure the effective exercise of independent judgement on its decision-making process and provide independent advice to our Board and Shareholders; (iii) established an audit committee to assist our Board in providing an independent view on the effectiveness of our financial reporting process and internal control and risk management system, and overseeing the audit process; (iv) appointed Cinda International as our compliance adviser in accordance with the applicable GEM Listing Rules; and (v) provided (and will continue to provide) our Directors and senior management with training and development programmes on applicable legal and regulatory requirements from time to time.

Having considered the results reported by the IC Advisor on our Group's internal control system, our Directors confirm, and the Sole Sponsor concurs, that the internal control measures implemented by our Group are sufficient and could effectively ensure a proper internal control system of our Group.

Prior to the Listing, we have entered into the following transaction with a connected person of our Company. Upon the Listing, this transaction will constitute a continuing connected transaction under the GEM Listing Rules.

CONNECTED PERSON

The relevant connected person with whom we entered into the continuing connected transaction is Zhejiang Senlaite, which is owned as to 63.86% by Changxing Hengli Investment, which is owned as to 51% by Mr. Dai and 49% by Ms. Song. Therefore, Zhejiang Senlaite is a subsidiary of a 30%-controlled company (as defined under the GEM Listing Rules) of Mr. Dai and Ms. Song and our connected person under Rule 20.07(4) of the GEM Listing Rules. Hengxin International (HongKong) Limited, which is owned as to 100% by Ms. Chen Jue, being the niece of Mr. Dai and Ms. Song, is also our connected person. Zhejiang Senlaite is also owned as to 36.14% by Hengxin International (HongKong) Limited.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Background and principal terms

In September 2017, Zhejiang Senlaite as licensor has orally granted a licence to Changxing Seashore for the use of a property located at 1st Floor, No. 318 Changcheng Road, Changxing Economic Development Area, Zhejiang Province, PRC (the "**Property**"), with a gross floor area of 2,501.97 sq.m. for conducting preparatory work for textile manufacturing. From September 2017 to July 2018, Changxing Seashore did not pay any fee for using the Property.

On 1 August 2018, Zhejiang Senlaite entered into a tenancy agreement with Changxing Seashore (the "**Tenancy Agreement**"), pursuant to which Zhejiang Senlaite agreed to lease to Changxing Seashore the Property for a three-year term commencing from 1 August 2018 to 31 July 2021 at an annual rent of RMB360,000. Our property valuer, AVISTA Valuation Advisory Limited, has reviewed the Tenancy Agreement and confirmed that the terms therein are comparable to the prevailing market terms and the rent payable by Changxing Seashore under the Tenancy Agreement is fair and reasonable and consistent with the prevailing market rent of comparable properties in similar location.

The expected maximum annual amounts payable by Changxing Seashore pursuant to the Tenancy Agreement are set out below:

Expected annual transaction amount Year ended 31 December			
2018 *(Note)*	**2019**	**2020**	**2021** *(Note)*
RMB150,000	RMB360,000	RMB360,000	RMB210,000

Note: Given that the term of the Tenancy Agreement commenced on 1 August 2018 and will expire on 31 July 2021, the expected annual transaction amount for the year ended 31 December 2018 was determined based on the rent payable for the period from 1 August 2018 to 31 December 2018 and the expected annual transaction amount for the year ending 31 December 2021 was determined based on the rent payable for the period from 1 January 2021 to 31 July 2021.

Upon Listing, the Tenancy Agreement will constitute a continuing connected transaction of our Company under the GEM Listing Rules. Under the Tenancy Agreement, since each of the relevant percentage ratios calculated for the purpose of Chapter 20 of the GEM Listing Rules is less than 5% and the total consideration is less than HK$3,000,000, the Tenancy Agreement is fully exempt from reporting, annual review, announcement, circular and independent shareholders' approval under the GEM Listing Rules.

DIRECTORS' VIEW

Our Directors, including our independent non-executive Directors, consider that the Tenancy Agreement has been entered into in the ordinary and usual course of business, on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), our Company will be owned as to approximately 59.11% by Spring Sea, which is owned as to approximately 53.98% by Mr. Dai and approximately 46.02% by Ms. Song and jointly controlled by them pursuant to the Acting in Concert Undertaking. Spring Sea, Mr. Dai and Ms. Song will be directly or indirectly holding approximately 59.11% of the issued share capital of our Company and are regarded as a group of Controlling Shareholders under the GEM Listing Rules.

Spring Sea is an investment holding company incorporated in the BVI while Mr. Dai is one of the founders of our Group and has been leading the development of and strategic planning of our Group throughout the years. Ms. Song joined our Group in August 2002 and has also been leading the development of and strategic planning of our Group since then. For details of Mr. Dai and Ms. Song's background and experience, please refer to the section headed "Directors and Senior Management – Directors – Executive Directors" in this prospectus.

RULE 11.04 OF THE GEM LISTING RULES

Each of our Controlling Shareholders, our Directors and their respective close associates does not have any interests apart from the business of our Group which competes or may compete with the business of our Group and which requires disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our business independently of, and does not place undue reliance on, our Controlling Shareholders or their respective close associates, taking into consideration the following factors:

Management independence

We have an independent management team comprising our executive Directors and our senior management who have substantial experience in our Group's business. Our management team is able to implement our Group's policies and strategies and perform their roles in our Company independently.

We aim at establishing and maintaining a strong and independent Board to oversee our Group's business. Our Board consists of six Directors, comprising three executive Directors and three independent non-executive Directors. The three independent non-executive Directors have extensive experience in different areas or professions. The main function of our Board includes the approval of our overall business plans and strategies, monitoring the implementation of these plans and strategies and the management of our Group.

Our Company will have a common director with Spring Sea, namely Mr. Dai. Despite the common directorship, our Company believes that the management independence between our Company and Spring Sea will be maintained as Spring Sea is only an investment holding company.

Further, each of our Directors is aware of his/her fiduciary duties as a Director which requires, among others, that he/she acts for the benefit and in the best interests of our Company and our Shareholders as a whole, and does not allow any conflicts between his/her duties as a Director and his/her personal interest to exist. In the event that there is a potential conflict of interest arising out of any transactions to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum. In case where Mr. Dai and Ms. Song are required to abstain from voting at Board meetings due to potential conflict of interest, other executive Director (namely, Mr. Wang Yongkang) and our independent non-executive Directors will be able to form a quorum and ensure that the decisions of the Board are made after due consideration of independent and impartial opinion.

In view of the aforesaid, our Directors are of the view that we are capable of managing the business of our Group independently of our Controlling Shareholders and their respective close associates after the Listing.

Operational independence

We have established our own organisational structure comprising individual departments, each with specific areas of responsibilities. We have not shared our operational resources, such as suppliers, customers, sales and marketing, and general administration resources with our Controlling Shareholders and/or their respective close associates.

Further, we have sufficient capital, equipment and employees to operate our business independently. We have also established various internal controls procedures to facilitate the effective operations of our business.

Save as disclosed in the section headed "Connected Transactions" in this prospectus, our Group has not entered into any connected transactions with any of our Controlling Shareholders that will continue after the Listing.

Financial independence

We have our own accounting systems, accounting and finance department and independent treasury function for cash receipts and payments. We make financial decisions according to our own business needs.

Our accounting and finance department will be responsible for the financial reporting, liaising with our auditors, reviewing our cash position and negotiating and monitoring our bank loan facilities and drawdowns.

All financial assistance, including amounts due to, and loans or guarantees provided by our Controlling Shareholders to our Group, were/will be repaid or released or otherwise settled in full upon the Listing.

Our Directors are of the view that our Group is not financially dependent on our Controlling Shareholders or their respective close associates in our Group's business operations and we are able to obtain external financing on market terms and conditions for our business operations as and when required.

Independence of major suppliers

None of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective close associates, had any interest in any of our five largest suppliers during the Track Record Period.

Independence of major customers

None of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective close associates, had any interest in any of our five largest customers during the Track Record Period.

SUMMARY OF DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Present position	Date of appointment as Director/senior management	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Directors						
Mr. Dai Shunhua (戴順華先生)	46	Chairman of our Board, executive Director, chief executive officer of our Group and general manager of Huzhou Narnia	1 September 2017	August 2002	Overseeing the overall corporate development, strategic planning and day-to-day management of our Group's operation	Spouse of Ms. Song and uncle of Mr. Chen Zhong
Ms. Song Xiaoying (宋曉英女士)	46	Executive Director	23 July 2018	August 2002	Overseeing the overall strategic planning, business development and day-to-day management of our Group's operation	Spouse of Mr. Dai and aunt of Mr. Chen Zhong
Mr. Wang Yongkang (王永康先生)	45	Executive Director	23 July 2018	August 2002	Overseeing the overall corporate development of our Group, including the manufacturing operations of our production facilities, quality control and safety matters	Nil
Dr. Liu Bo (劉波博士)	39	Independent non-executive Director	29 January 2019	January 2019	As the chairman of the nomination committee and a member of the audit committee and the remuneration committee	Nil
Mr. Leung Ka Tin (梁家鈿先生)	65	Independent non-executive Director	29 January 2019	January 2019	As the chairman of the remuneration committee and a member of the audit committee and the nomination committee	Nil
Mr. Yu Chung Leung (余仲良先生)	48	Independent non-executive Director	29 January 2019	January 2019	As the chairman of the audit committee and a member of the nomination committee and the remuneration committee	Nil

Name	Age	Present position	Date of appointment as Director/senior management	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Senior Management						
Mr. Liu Xiaohua (劉曉華先生)	34	Secretary to the board of directors of Huzhou Narnia	1 January 2014	June 2006	Overseeing the day-to-day business operation of our Group	Nil
Mr. Zhang Ping (張平先生)	36	Head of the supply and marketing centre of Huzhou Narnia	1 April 2018	July 2004	Implementation of our Group's strategic plans and coordinating the supplies	Nil
Mr. Chen Zhong (陳忠先生)	28	Head of the technical centre of Huzhou Narnia	1 April 2018	July 2011	Overseeing the operation of our production facilities and provide technical support and training	Nephew of Mr. Dai and Ms. Song
Ms. Wang Jingjing (汪晶晶女士)	35	Head of the production centre of Huzhou Narnia	1 January 2018	December 2006	Overseeing the production process	Nil

DIRECTORS

Our Board consists of six Directors, comprising three executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Dai Shunhua (戴順華先生), aged 46

Mr. Dai is one of the founders of Huzhou Narnia and one of our Controlling Shareholders. He is the spouse of Ms. Song, our executive Director, and the uncle of Mr. Chen Zhong, one of our senior management members. He was appointed as our Director on 1 September 2017 and was re-designated as our executive Director on 23 July 2018. He also serves as the chairman of our Board, chief executive officer of our Group and the general manager of Huzhou Narnia. He

is responsible for overseeing the overall corporate development, strategic planning and day-to-day management of our Group's operation.

Mr. Dai has over 25 years of experience in the textile manufacturing, printing and dyeing industry. Prior to the establishment of Huzhou Narnia, Mr. Dai worked for Changxing Hangxing Silk Printing and Dyeing Factory* (長興杭興絲綢印染廠) from July 1991 to December 1998, with his last position held as factory manager. From December 1998 to August 2002, he was a director and deputy general manager of Huzhou Zhixin Textile Printing and Dyeing Ltd.* (湖州志鑫紡織印染有限公司), during which he was responsible for the overall management and strategic development of the company. Since the establishment of Huzhou Narnia in August 2002, Mr. Dai has been the director and general manager of Huzhou Narnia and has been participating in the day-to-day management of Huzhou Narnia. Mr. Dai currently serves as a director of all the subsidiaries of our Company, being Autumn Sky, Hengye Development, Huzhou Narnia, Narnia International and Changxing Seashore.

Mr. Dai was a representative of the 7th session of People's Congress of Huzhou City (湖州市第七屆人民代表大會) and a member of the 11th session of Zhejiang Province Committee of the Chinese People's Political Consultation Conference (中國人民政治協商會議第十一屆浙江省委員會).

Mr. Dai completed the Fudan-Citi Small and Medium Enterprises Senior Management Training Programme (復旦－花旗中小企業高層管理者高級研修班) at Fudan University in March 2008 and completed the Entrepreneurial Finance & Strategy Programme at Babson College in October 2008. He was accredited as an economist in the PRC in June 2005.

Ms. Song Xiaoying (宋曉英女士), aged 46

Ms. Song is one of our Controlling Shareholders and was appointed as our executive Director on 23 July 2018. She is responsible for overseeing the overall strategic planning, business development and day-to-day management of our Group's operation. She is the spouse of Mr. Dai, our executive Director, and the aunt of Mr. Chen Zhong, one of our senior management members. Ms. Song currently serves as a director of Huzhou Narnia, a subsidiary of our Company.

Ms. Song has over 20 years of experience in the textile manufacturing, printing and dyeing industry. Prior to joining our Group, Ms. Song worked for Yuliang Textile* (玉良紡織) as cashier from October 1996 to December 1998 and Changan Dyeing Factory* (長安印染廠) as a checker and merchandiser from January 1999 to March 2001. From April 2001 to July 2002, she was a factory manager and deputy general manager of Hengye Textile Factory* (恒燁紡織廠). Ms. Song joined our Group in August 2002 as the deputy general manager of Huzhou Narnia.

Ms. Song graduated from the Correspondence College of the Party School of the Central Committee of the Communist Party of China (中共中央黨校函授學院) majoring in economics management in June 1998.

Mr. Wang Yongkang (王永康先生), aged 45

Mr. Wang was appointed as our executive Director on 23 July 2018. He is responsible for overseeing the overall corporate development of our Group, including the manufacturing operations of our production facilities, quality control and safety matters. Mr. Wang currently serves as a director of a subsidiary of our Company, being Huzhou Narnia.

Mr. Wang has over 19 years of experience in the textile printing and dyeing industry. Prior to joining our Group, he worked for Changxing Lock Factory* (長興制鎖廠) as technician from October 1994 to June 1998. From August 1998 to July 2002, he worked as branch factory printing technician manager of Huzhou Zhixin Textile Printing and Dyeing Ltd.* (湖州志鑫紡織印染有限公司). He joined Huzhou Narnia as printing engineer and printing department manager in August 2002. From August 2011 to March 2018, he was the factory manager of Huzhou Narnia. Mr. Wang has been a director of Huzhou Narnia since November 2015 and has been primarily responsible for managing the production line operation at Huzhou Narnia since April 2018. Mr. Wang graduated from Jiaxing City Secondary Vocational School* (嘉興市中等專業學校) in July 1994 majoring in mechanical engineering.

Independent non-executive Directors

Dr. Liu Bo (劉波博士), aged 39

Dr. Liu was appointed as our independent non-executive Director on 29 January 2019. He is the chairman of our nomination committee and a member of our audit committee and remuneration committee.

Dr. Liu was appointed as a lecturer of University of Electronic Science and Technology of China (電子科技大學) in June 2009. He became an associate professor and a professor of the School of Management and Economics of University of Electronic Science and Technology of China in August 2011 and August 2017, respectively.

Dr. Liu obtained a bachelor's degree in business administration, a master's degree in quantitative economics, and a doctoral degree in management science and engineering from University of Electronic Science and Technology of China in July 2002, March 2005 and June 2009, respectively.

Mr. Leung Ka Tin (梁家鈿先生), aged 65

Mr. Leung was appointed as our independent non-executive Director on 29 January 2019. He is the chairman of our remuneration committee and a member of our audit committee and nomination committee.

Mr. Leung has over 35 years of management experience in banking, treasury operation, project finance, telecommunication, corporate finance, logistics and human resource management. He was a member of the senior management team in different financial institutions

in Hong Kong, including FPB Asia Limited, NedFinance (Asia) Limited, BfG: Finance Asia Limited, and Delta Asia Financial Group, as well as companies in the logistics and telecommunication sectors including EAS Da Tong International Enterprise (Group) Company Limited and Trident Telecom Ventures Limited. Mr. Leung's experience covers both professional management and entrepreneurship. Mr. Leung joined SSC Mandarin Group Limited in March 2010, a corporate financial advisory firm, as a project director. From January 2012 to May 2013, Mr. Leung joined Chun On Management Limited as a consultant. Mr. Leung then became a consultant of Galaxy Master Fund SPC in September 2012. Mr. Leung has been/was a director of the following companies:

From	To	Company	Position
23 July 2014	3 August 2016	Wealth Glory Holdings Limited, a company listed on the Stock Exchange (stock code: 8269)	Independent non-executive director
21 September 2015	23 December 2015	Chanco International Group Limited (currently known as Ascent International Holdings Limited), a company listed on the Stock Exchange (stock code: 0264)	Independent non-executive director
16 July 2015	23 December 2015	China Kingstone Mining Holdings Limited, a company listed on the Stock Exchange (stock code: 1380)	Executive director
17 February 2016	Current	KEE Holdings Company Limited, a company listed on the Stock Exchange (stock code: 2011)	Independent non-executive director
24 February 2017	Current	PanAsialum Holdings Company Limited, a company listed on the Stock Exchange (stock code: 2078)	Independent non-executive director

Mr. Leung completed a programme jointly held by the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) and the Hong Kong Management Association in September 1988 and obtained a diploma in management studies.

Mr. Yu Chung Leung (余仲良先生), aged 48

Mr. Yu was appointed as our independent non-executive Director on 29 January 2019. He is the chairman of our audit committee and a member of our remuneration committee and nomination committee.

Mr. Yu has over 25 years of experience in auditing and accounting. From July 1993 to February 2003, Mr. Yu worked for an international accounting firm, with his last position as audit manager. He is currently a partner of Lee & Yu Certified Public Accountants, which Mr. Yu has been working since March 2003. He was also an independent director and an audit committee member of Pacific CMA Incorporated, a listed company in the United States, for the period from June 2005 to July 2009. From June 2008 to June 2017, he was also the independent non-executive director of China Kangda Food Company Limited, a company listed on the Stock Exchange (stock code: 0834).

Mr. Yu obtained a Master of Arts in international accounting from the City University of Hong Kong in November 2006. Mr. Yu has been a member of the Hong Kong Institute of Certified Public Accountants since April 2001. He became a member and a fellow of the Association of Chartered Certified Accountants in April 2001 and March 2006, respectively. He became an authorised supervisor to train prospective members of the Hong Kong Institute of Certified Public Accountants in June 2004. Mr. Yu was admitted as an associate of the Taxation Institute of Hong Kong in June 2010.

DISCLOSURE REQUIRED UNDER RULE 17.50(2) OF THE GEM LISTING RULES

Ms. Song was a director of Changxing Hengye Textile Co Ltd* (長興恆燁紡織品有限公司) ("**Changxing Hengye**"), a company incorporated in the PRC engaging in textile printing and dyeing prior to its dissolution. Changxing Hengye was dissolved by deregistration on 22 July 2003 because its shareholders had resolved to merge with Huzhou Narnia. Ms. Song confirmed that Changxing Hengye was solvent at the time of its dissolution and such dissolution had not resulted in any liability or obligation against her.

Mr. Leung Ka Tin was a director of the following companies which were incorporated in Hong Kong prior to their respective dissolution pursuant to section 291AA of the Predecessor Companies Ordinance or section 751 of the Companies Ordinance (as the case may be). The following are details of the aforementioned dissolved companies:

Company Name	Principal business activities prior to dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
Franco Management Limited (益羣管理有限公司)	Provision of management services	4 May 2007	Deregistration	Cessation of business
More Express Limited (多迅有限公司)	Mobile handset distributors	11 January 2013	Deregistration	Cessation of business
Fine Line Corporation Limited (暉僑有限公司)	Mobile handset distributors	23 May 2014	Deregistration	Cessation of business

Company Name	Principal business activities prior to dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
Great Team Asia Limited (宏滙亞洲有限公司)	Property holding	11 December 2015	Deregistration	Cessation of business
WG Venture Limited	Dormant	25 November 2016	Deregistration	No business operation since its incorporation
Time Team Technology and Consultant Limited (時盟科技及顧問有限公司)	Dormant	25 August 2017	Deregistration	No business operation since its incorporation

Mr. Leung was also a director of the company listed below, which was incorporated in Hong Kong and was dissolved by striking off as defunct company pursuant to section 291 of the Predecessor Companies Ordinance:

Company Name	Principal business activities prior to dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
Grandflow International Limited (均福國際有限公司)	Provision of management services	19 October 2001	Striking Off	Cessation of business

Mr. Leung confirmed that the above companies were solvent at the time of their dissolution and such dissolution had not resulted in any liability or obligation against him.

Save as disclosed above, each of our Directors has confirmed with respect to him/her that: (a) he/she has not held any current or past directorship in the last three years in any other listed company, the securities of which are listed on any securities market in Hong Kong or overseas; (b) he/she has not held other positions in our Company or any members of our Group as at the Latest Practicable Date; (c) he/she did not have any relationship with any other Directors, senior management, Substantial Shareholder or Controlling Shareholders as at the Latest Practicable Date; (d) he/she does not have any other interest in our Shares within the meaning of Part XV of the SFO, save as disclosed in the section headed "C. Further information about our Directors and Substantial Shareholders – 1. Disclosure of interests" in Appendix V to this prospectus; (e) he/she does not have any other interest in any business which competes or is likely to compete, directly or indirectly, with us, which is discloseable under GEM Listing Rules; and (f) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no additional information relating to our Directors or senior management that was required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and no

other matter with respect to their appointments that needs to be brought to the attention of our Shareholders as at the Latest Practicable Date.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Mr. Dai has been managing our Group's business and overall strategic planning since its establishment. Our Directors believe that the vesting of the roles of chairman of our Board and chief executive officer in Mr. Dai is beneficial to the business operations and management of our Group and will provide a strong and consistent leadership to our Group, and that the current management has been effective in the development of our Group and implementation of business strategies under the leadership of Mr. Dai. In allowing the two roles to be vested in the same person, our Directors believe both positions require in-depth knowledge and considerable experience of our Group's business and Mr. Dai is the most suitable person to occupy both positions for effective management and implementation of business plans of our Group. As such, our Company has not segregated the roles of chairman of our Board and chief executive officer as required by paragraph A.2.1 of the Corporate Governance Code.

SENIOR MANAGEMENT

Mr. Liu Xiaohua (劉曉華先生), aged 34, is the secretary to the board of directors of Huzhou Narnia since January 2014, responsible for overseeing the day-to-day business operation of our Group. Mr. Liu has over 11 years of experience in accounting. He joined Huzhou Narnia as accounting assistant in June 2006. He was promoted to account manager in January 2008 and was further promoted to finance manager in January 2011. He studied at the Jiangxi University of Science and Technology (江西理工大學) majoring in accounting from September 2002 to July 2006 and graduated with a bachelor's degree in management in July 2006.

Mr. Zhang Ping (張平先生), aged 36, is the head of the supply and marketing centre of Huzhou Narnia since April 2018 and is primarily responsible for implementation of our Group's strategic plans and coordinating the supplies.

Mr. Zhang has over 13 years of experience in textile trading. He joined Huzhou Narnia as merchandiser and foreign trade sales representative in July 2004. He was then promoted to foreign trade manager in September 2007. Mr. Zhang was the chairman of the supervisory board of Huzhou Narnia from August 2011 to March 2018 and has been the chairman of the labour union of Huzhou Narnia since August 2011. He graduated from Zhejiang Normal University (浙江師範大學) with a bachelor's degree of engineering majoring in computer science and technology in June 2004 and completed an advanced training course on entrepreneur management held by Zhejiang University (浙江大學) in July 2008. He was accredited as an assistant economist in the PRC in June 2005.

Mr. Chen Zhong (陳忠先生), aged 28, is the head of the technical centre of Huzhou Narnia since April 2018 and is primarily responsible for product development, overseeing the operation of our production facilities and providing technical support and training to our technicians. Mr. Chen is the nephew of Mr. Dai and Ms. Song, our executive Directors.

Mr. Chen has over six years of experience in textile printing and dyeing. He joined Huzhou Narnia as sampler in July 2011. He was then promoted to dyeing workshop manager in October 2013 and was further promoted to head of the dyeing workshop in August 2016. He graduated from Ningbo City College of Vocational Technology (寧波城市職業技術學院) majoring in applied computer technology in June 2011.

Ms. Wang Jingjing (汪晶晶女士), aged 35, is the head of the production centre of Huzhou Narnia since January 2018 and is primarily responsible for overseeing the production process.

Ms. Wang has 11 years of experience in administration of textile printing and dyeing factory. She joined our Group in December 2006 and served as an administrative assistant of Huzhou Narnia from December 2006 to December 2007. From May 2008, she was the audit assistant of Huzhou Narnia and was further promoted to warehouse manager in May 2013. She graduated from the Ningbo Polytechnic (寧波職業技術學院) in network technology in June 2006 and the China Central Radio and TV University (中央廣播電視大學) (currently known as The Open University of China (國家開放大學)) in administrative management in January 2010.

COMPANY SECRETARY

Mr. Chan Hon Wan (陳漢雲先生), aged 58, was appointed as our company secretary on 23 July 2018. He is responsible for company secretarial matters of our Group.

Mr. Chan has over 27 years of extensive experience in accounting and money market fields, gaining from an international accounting firm and various listed corporations. From July 1991 to May 1995, Mr. Chan worked for Culturecom Limited and his last position held was the finance manager. He served as the financial controller of Fairwood Fast Food Limited from May 1995 to April 1998. He worked as the corporate finance director of Texwood Limited from April 2000 to July 2005 and a business director of Texwood Group from October 2006 to February 2008. Mr. Chan was the company secretary, qualified accountant and authorised representative of Freeman Corporation Limited (currently known as Freeman FinTech Corporation Limited), a company listed on the Stock Exchange (stock code: 0279), from September 2008 to April 2009. He became the financial controller and company secretary of Zhejiang Chang'an Renheng Technology Co., Ltd., a company listed on the Stock Exchange (stock code: 8139) since April 2014.

Mr. Chan graduated with a bachelor's degree in economics from Macquarie University in Australia in April 1986 and a master's degree in accountancy from the Hong Kong Polytechnic University in December 2005. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since June 1991 and an associate member of the Institute of Chartered Accountants in Australia since November 1990.

COMPLIANCE OFFICER

Mr. Dai is the compliance officer of our Company. For details of his background and experience, please refer to the paragraph headed "Directors - Executive Directors" in this section.

BOARD COMMITTEES

Audit committee

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

At present, our audit committee comprises of Mr. Yu Chung Leung, Mr. Leung Ka Tin and Dr. Liu Bo, all being our independent non-executive Directors. Mr. Yu Chung Leung is the chairman of our audit committee.

Remuneration committee

We established a remuneration committee on 29 January 2019 with written terms of reference in compliance with Rule 5.35 of the GEM Listing Rules and paragraph B.1.2 of the Corporate Governance Code. The primary duties of our remuneration committee are, among others, to review and approve the management's remuneration proposals, make recommendations to our Board on the remuneration package of our Directors and senior management and ensure none of our Directors or their associates is involved in deciding their own remuneration.

At present, our remuneration committee comprises Mr. Leung Ka Tin, Dr. Liu Bo and Mr. Yu Chung Leung, all being our independent non-executive Directors. Mr. Leung Ka Tin is the chairman of our remuneration committee.

Nomination committee

We established a nomination committee on 29 January 2019 with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code. The primary duties of our nomination committee are, among others, to review the structure, size and composition of our Board, and select or make recommendations on the selection of individuals nominated for directorships.

At present, our nomination committee comprises Dr. Liu Bo, Mr. Leung Ka Tin and Mr. Yu Chung Leung, all being our independent non-executive Directors. Dr. Liu Bo is the chairman of our nomination committee.

BOARD DIVERSITY POLICY

Our Company has adopted a board diversity policy on 29 January 2019 which sets out the approach of which our Board could achieve a higher level of diversity. Our Company recognises the benefits of having a diversified Board. In summary, our board diversity sets out that when considering the nomination and appointment of a director, with the assistance of our nomination committee, our Board would consider a number of factors, including but not limited to the skills, knowledge, professional experience and qualifications, cultural and educational background, age, gender and diversity of prospective that the candidate is expected to bring to our Board and what would be the candidate's potential contributions, in order to better serves the needs and development of our Company. Our board diversity policy also seeks to attract, retain and motivate our Directors and other staff from the widest pool of available talent. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard to the benefits of diversity on our Board.

COMPLIANCE ADVISER

Our Company has appointed Cinda International as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules for the term commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

Pursuant to Rule 6A.23 of the GEM Listing Rules, we shall consult with and, if necessary, seek advice from our compliance adviser on a timely basis in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(c) where we propose to use the proceeds of the Listing in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate to a material extent from any forecast, estimate, or other information in this prospectus; and

(d) where the Stock Exchange makes an inquiry of us under Rule 17.11 of the GEM Listing Rules.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses related to their performance. We also reimburse them for expenses which are necessarily and reasonably incurred in relation to all business and affairs carried out by us from time to time or for providing services to us or executing their functions in relation to our business and operations. We regularly review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and our performance.

After the Listing, our Directors and senior management may also receive options to be granted under the Share Option Scheme.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

During each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, the aggregate emoluments paid and benefits in kind (excluding discretionary bonus and contributions to pension schemes) granted by us to our Directors were approximately RMB138,000, RMB145,000 and RMB165,000, respectively.

For each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, the aggregate remuneration including basic salaries, allowance, other benefits and contribution to retirement benefit scheme, paid to the five highest paid individuals (excluding our Directors) by our Group was approximately RMB245,000, RMB323,000 and RMB203,000, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid, or are payable, by us to our Directors and the five highest paid individuals in respect of each of the two years ended 31 December 2017 and the ten months ended 31 October 2018.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus and contributions to pension schemes) for the year ended 31 December 2018 will be approximately RMB261,000. Upon completion of the Listing, our remuneration committee will make recommendations on the remuneration of our Directors taking into account the performance of our Directors and market standards and the remuneration will be subject to approval by our Shareholders. Accordingly, the historical remuneration to our Directors during the Track Record Period may not reflect the future levels of remuneration of our Directors.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors or the five highest individuals as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

For additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to the Accountants' Report set out in Appendix I to this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Further information on the Share Option Scheme is set forth in the paragraph headed "D. Share Option Scheme" in Appendix V to this prospectus.

SHARE CAPITAL

The tables below set forth information with respect to the share capital of our Company after completion of the Share Offer and the Capitalisation Issue.

Authorised share capital:		*US$*
2,000,000,000	Shares with par value of US$0.001 each	2,000,000

Without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme, our Company's issued share capital immediately after completion of the Share Offer and the Capitalisation Issue will be as follows:

Shares		*US$*
50,000	Shares of US$1 each in issue as at the date of incorporation	50,000
50,000,000	Shares in issue as at the Latest Practicable Date after the sub-division of each Share of US$1 into 1,000 Shares with par value of US$0.001 each	50,000
200,000,000	Shares to be issued pursuant to the Share Offer	200,000
550,000,000	Shares to be issued pursuant to the Capitalisation Issue	550,000
800,000,000	Total	800,000

Assuming the Offer Size Adjustment Option is exercised in full and without taking into account any Share that may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme, our Company's issued share capital immediately following completion of the Share Offer and the Capitalisation Issue will be as follows:

Shares		*US$*
50,000	Shares of US$1 each in issue as at the date of incorporation	50,000
50,000,000	Shares in issue as at the Latest Practicable Date after the sub-division of each Share of US$1 into 1,000 Shares with par value of US$0.001 each	50,000
200,000,000	Shares to be issued pursuant to the Share Offer	200,000
550,000,000	Shares to be issued pursuant to the Capitalisation Issue	550,000
30,000,000	Shares to be issued upon exercise of the Offer Size Adjustment Option	30,000
830,000,000	Total	830,000

ASSUMPTIONS

The above tables assume that the Share Offer becomes unconditional and Shares are issued pursuant to the Share Offer. It takes no account of any Share that may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the total number of issued Share in the hands of the public.

RANKING

The Offer Shares are ordinary Shares and rank equally with all Shares currently in issue or to be issued and, in particular, will rank equally for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed "D. Share Option Scheme" in Appendix V to this prospectus.

We did not have any outstanding share option, warrant, convertible instrument or similar right convertible into the Shares as at the Latest Practicable Date.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares in aggregate not exceeding:

(a) 20% of the total number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme); and

(b) the aggregate number of issued Share which may be repurchased by our Company (if any) under the mandate to repurchase Shares referred to below.

Our Directors may, in addition to the Shares which they are authorised to issue under the general mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of the subscription rights attaching to any warrant of our Company, scrip dividends or similar arrangements or options providing for the allotment and issue of Shares in lieu of the whole or in any part of any cash dividends or options to be granted under the Share Option Scheme and any option scheme or similar arrangement for the time being adopted or upon the exercise of the Offer Size Adjustment Option.

This general mandate to issue Shares will remain in effect until whichever is the earliest of:

(a) the conclusion of our next annual general meeting; or

(b) the date by which our next annual general meeting is required by the Articles or any applicable law to be held; or

(c) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

Further details of this general mandate are set out in the paragraph headed "A. Further Information about our Group – 6. Written resolutions of all Shareholders passed on 29 January 2019" in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all powers of our Company to repurchase, on the Stock Exchange and/or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with applicable laws and requirements of the GEM Listing Rules (or of such other stock exchange), Shares in the number not exceeding 10% of the total number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme). A summary of the relevant GEM Listing Rules is set out in the paragraph headed "A. Further information about our Group – 7. Repurchase of the Shares" in Appendix V to this prospectus.

This general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

(a) the conclusion of our next annual general meeting; or

(b) the date by which our next annual general meeting is required by the Articles or any applicable law to be held; or

(c) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

Further details of this repurchase mandate are set out in the paragraph headed "A. Further information about our Group – 7. Repurchase of the Shares" in Appendix V to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meeting. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in Appendix IV to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors or chief executive of our Company, immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who/which is expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group:

Person/corporation	Company concerned	Capacity/ nature of interest	Number of Shares held immediately after completion of the Share Offer and the Capitalisation Issue *(Note 1)*	Approximate percentage of interests in our Company immediately after completion of the Share Offer and the Capitalisation Issue
Spring Sea *(Note 2)*	Our Company	Beneficial owner	472,848,000 (L)	59.11%
Mr. Dai *(Notes 2 and 3)*	Our Company	Interest in controlled corporation *(Note 2)* Interest of spouse/Interest held jointly with another person *(Note 3)*	472,848,000 (L)	59.11%
Ms. Song *(Notes 2 and 3)*	Our Company	Interest in controlled corporation *(Note 2)* Interest of spouse/Interest held jointly with another person *(Note 3)*	472,848,000 (L)	59.11%
Summer Land *(Note 4)*	Our Company	Beneficial owner	127,152,000 (L)	15.89%

Notes:

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

2. Our Company will be owned as to approximately 59.11% by Spring Sea immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme). Spring Sea is owned as to approximately 53.98% by Mr. Dai and approximately 46.02% by Ms. Song. Under the SFO, Mr. Dai and Ms. Song are deemed to be interested in the same number of Shares held by Spring Sea.

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

4. Our Company will be owned as to approximately 15.89% by Summer Land immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme).

Save as disclosed above, our Directors are not aware of any person/corporation who/which will, immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which is expected, directly or indirectly, be interested in 10% or more of the issued voting shares of any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SIGNIFICANT SHAREHOLDERS

Save as disclosed above, our Directors are not aware of any person who will be, immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme or pursuant to the exercise of the Offer Size Adjustment Option), entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of our Company and will therefore be regarded as our significant Shareholders.

You should read this section in conjunction with our audited consolidated financial information as at and for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, including the Notes thereto, as set out in the Accountants' Report in Appendix I to this prospectus. The audited consolidated financial information has been prepared in accordance with IFRSs. You should read the Accountants' Report included as Appendix I to this prospectus in its entirety and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those anticipated in the forward-looking statements. Factors that might cause future results to differ significantly from those anticipated in the forward-looking statements as a result of various factors, including those discussed in "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We principally engage in the textile manufacturing and printing and dyeing in the PRC with over 15 years of experience in the textile industry. We develop a comprehensive range of polyester fabrics, which is a type of chemical fabrics, with different texture and functions, such as brushed fabric, imitation silk and sateen, and engage in direct sales to our customers. To diversify our source of revenue, we also engage in the provision of printing and dyeing services in the PRC.

We manufacture our products in our owned production facilities located in Huzhou City, Zhejiang Province. Being strategically located in Huzhou City, our operations enjoy easy access to upstream and downstream enterprises along the supply chain in the Changjiang Economic Belt as well as the latest industry news and market information. According to the Frost & Sullivan Report, Zhejiang Province is among the top provinces for textile manufacturing in the PRC, accounting for approximately 22.0% of national fabric production volume in 2017. We are well positioned to benefit from the government policies under the Thirteen Five-year Plan of the textile industry in the Zhejiang Province. During the Track Record Period, we have developed stable relationship with our major customers and suppliers. We had established relationships ranging from one to 12 years among our five largest customers and relationships ranging from two to 15 years among our five largest suppliers during the Track Record Period.

Apart from the capability to manufacture functional polyester fabrics, we also possess certain patented production techniques and dyeing methods. We believe that our strong research and development capabilities are critical to our success and will continue to drive the growth of our business. As at the Latest Practicable Date, we had four invention patents and nine utility model patents, and six utility model patents and one invention patent are under application in relation to certain products, production techniques and dyeing methods.

Our net profit attributable to the owners of our Company for each of the two years ended 31 December 2017 were approximately RMB8.4 million and RMB13.9 million, respectively. For the ten months ended 31 October 2017 and 2018, net profit attributable to the owners of our Company were approximately RMB9.0 million and RMB34.7 million. Excluding the expenses incurred in connection with the Listing, net profit attributable to the owners of our Company would be approximately RMB46.5 million for the ten months ended 31 October 2018.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations, financial condition and the period-to-period comparability of our financial results are principally affected by the following factors:

Growth of the PRC economy and the PRC textile fabric production industry

We primarily engage in the manufacturing, weaving, printing and dyeing, development and sales of polyester fabrics in the PRC. As such, our financial performance and operation results mainly rely on the demand and the macroeconomic conditions in the PRC markets. According to Frost & Sullivan, the PRC economy has maintained a steady growth in recent years, achieving a CAGR for nominal GDP of approximately 8.5% from 2013 to 2017. It is estimated that the growth rate of the textile fabric production industry in the PRC would show an uptrend and the total revenue would reach CAGR of approximately 1.9% from 2017 to 2022. The growth in the textile industry in the PRC is mainly driven by continuous growing demand for textile products, increasing investment and support from the PRC Government.

We believe the positive market prospect will continue to provide a favourable backdrop to the development of our business. However, any slowdown or decline in the PRC economy may adversely affect consumers' demand for textile products, which in turn may affect the demand for our products. If that happens, our future business, results of operations and financial condition may be materially and adversely affected.

Materials cost

Our main raw materials for the manufacture and sales of fabrics are grey fabrics and chemical fibres. As for our provision of printing and dyeing services, the principal raw materials are dyes and other additives for fabrics. During the Track Record Period, bulk of the grey fabrics used in our production process were manufactured from chemical fibres through weaving by our Huzhou Production Facilities. For the other raw materials such as dyes and chemical fibres, we source our raw materials mainly from domestic manufacturers in the PRC. For the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, the raw material costs recognised in cost of sales and services amounted to approximately RMB166.1 million, RMB136.8 million, RMB112.3 million and RMB159.7 million, representing approximately 80.1%, 71.2%, 75.5% and 72.4%, respectively of the total cost of sales and services of our Group.

The price of raw materials are determined principally by (i) our bargaining power with our raw material suppliers, and (ii) market forces such as the relevant supply and demand of the raw materials. Fluctuations in market supply and cost trends of the raw materials would lead to a direct impact to our total cost of sales and profit margin.

During the Track Record Period, supply of majority of our raw materials have been fairly stable and our major raw materials are commonly available from the market, and we did not experience any material fluctuations in the material cost that had a material impact on our business, financial conditions or results of operations. All of the raw materials we procure, including dyes and chemical fibres, are purchased from a number of suppliers to ensure adequate supply and hence a stable production of our finished products.

Sales mix

We offer a broad range of fabrics in the PRC, to meet the various product specifications of our customers. We also offer high quality services on printing and dyeing to our customers. We believe our diverse sales types enable us to capitalise on changing market trends and consumer preferences. Our overall revenue and profit margins are substantially affected by the mix of sales types that we provided. For the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, the gross profit margin of our Group was approximately 14.4%, 19.3%, 19.6% and 19.6%, respectively. The fluctuation in gross profit margin during the Track Record Period was primarily due to the mix of sales types with a generally higher gross profit margin for the services from printing and dyeing.

We have a diverse sales types comprising a comprehensive range of polyester fabrics products and competitive services on printing and dyeing with different cost bases and selling prices, and hence generate different gross profit margins. We adopted a cost-plus policy to determine the selling prices of our products and services, which principally took into account factors, such as costs of materials, labour and manufacturing overhead and markup which varies case by case but is generally determined by factors such as our relationship with the customers, the specifications and functionality of the products and the research and development effort we have expended on the products.

Product mix and customer mix

We have a diverse product portfolio comprising different series of polyester fabrics. We believe our diverse product range enables us to capture the business opportunities on changing market trends and consumer preferences in the market. The type and number of products purchased by our customers vary from year to year depending on, among others, the marketing plan and strategy of our customers for the relevant year. As different products have different selling prices and generate different gross profit margins depending on facts such as cost of raw materials or inventory, product pricing and marketing strategy, the mix of products in our portfolio which are accepted by our customers, and subsequently received purchase order will affect our financial performance. During the Track Record

Period, our financial performance has varied due to the change in product mix and may continue to vary as we develop new products to suit changing market trends and customer preferences.

Preferential tax treatments

One of our subsidiaries, Huzhou Narnia is recognised as a High and New Technology Enterprise* (高新技術企業) which is jointly verified by Science and Technology Department of Zhejiang Province, Zhejiang Provincial Department of Finance, Zhejiang Province State Taxation Bureau and Zhejiang Province Local Taxation Bureau and have benefited from a preferential EIT rate of 15%, rather than the 25% EIT rate generally applicable to the PRC tax resident enterprises under the EIT Law. For the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, our income tax expenses were reduced by approximately RMB1.1 million, RMB1.5 million, RMB0.1 million and RMB2.6 million, respectively, as a result of such preferential tax treatments.

Our tax rates directly impact our profitability, and we expect that our results of operations will continue to be positively affected by preferential tax treatments. However, qualification of Huzhou Narnia is re-evaluated every three years. The qualification of Huzhou Narnia will expire on 31 December 2019.

Huzhou Narnia will only continue to receive the High and New Technology Enterprise* (高新技術企業) preferential tax treatment if the relevant authorities determine that Huzhou Narnia continue to qualify, which depends on a number of factors, such as whether the products produced fall within the scope of supported high and new technology, whether the incurred research and development expenses as a percentage of revenue reaches certain threshold percentages, whether the research and development staff as a percentage of total number of staff reaches certain threshold percentages and whether Huzhou Narnia has its own independent, core intellectual property rights.

BASIS OF PRESENTATION

Pursuant to the Reorganisation, our Company became the holding company of the companies now comprising our Group. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows for the Track Record Period as set out in Appendix I to this prospectus include the results, changes in equity and cash flows of the companies comprising our Group following the consummation of the Reorganisation, as if our Company has always been the holding company of our Group and the group structure upon completion of the Reorganisation had been in existence throughout the Track Record Period, or since their respective date of establishment, incorporation or acquisition, where this is a shorter period.

The consolidated statements of financial position of our Group as at 31 December 2016 and 2017 and 31 October 2018 have been prepared to present the assets and liabilities of the companies comprising our Group, as if our Company had always been the holding company of our Group and the group structure upon completion of the Reorganisation had been in existence at those dates.

SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, our Company has applied all International Accounting Standards ("**IASs**"), International Financial Reporting Standards ("**IFRSs**"), amendments issued by the International Accounting Standards Board (the "**IASB**") and the related interpretations ("**IFRICs**"), that are effective for our Group's accounting period beginning on 1 January 2018, including IFRS 15 *"Revenue from Contracts with Customers"*, consistently throughout the Track Record Period except that we adopted IFRS 9 *"Financial Instruments"* beginning on 1 January 2018 and IAS 39 *"Financial Instruments: Recognition and Measurement"* prior to 1 January 2018. In addition, the adoption of IFRS 15 would have no significant impact on our financial position and performance compared to the requirements of IAS 18 *"Revenue"*. In relation to our revenue from printing and dyeing service, under IAS 18, it is recognised when the service is performed while under IFRS 15, it is recognised over time throughout the processing period because our performance enhances an asset that our customers control as the asset is enhanced. As the processing time is short (i.e. only a few days) and therefore the adoption of IFRS 15 would have no significant impact.

Our management has assessed the effects of adoption of IFRS 9 on the historical financial information on 1 January 2018. We have applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applying the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and not applying the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses, without restating the financial information for the three years ended 31 December 2017. The adoption of IFRS 9 on 1 January 2018 does not have any significant impact on our Group's cash flows for the period ended 31 October 2018. Except for the reclassification and remeasurement of our unlisted equity investment from available-for-sale investment which was measured at cost less impairment under IAS 39 to financial assets mandatorily measured at FTVPL under IFRS 9, our Directors considered that the initial adoption of IFRS 9 does not result in a significant impact to our Group's financial position and performance. Details of the impact on our Group's unlisted equity investment arising from the adoption of IFRS 9 are set out in note 4 in the Accountants' Report in Appendix 1 of this prospectus.

For details of the principal accounting policies applied in the preparation of the Historical Financial Information of our Group, please refer to Note 4 to the Accountants' Report included in Appendix I of this prospectus.

The preparation of the financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in Note 5 to the Accountants' Report included in Appendix I to this prospectus.

Critical accounting policies, judgement and estimates that are significant to the preparation of our consolidated financial information and important for an understanding of our financial position and results of operation are described below:

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services.

Revenue from sales of fabrics is recognised at a point in time when the legal title of the finished good is transferred, since only by that time our Group passes control of the fabric products to the customer. Our fabrics sold under this segment are produced from grey fabrics which we procured from self-production, purchasing from Independent Third Party suppliers and using grey fabrics produced by subcontractors.

Revenue from printing and dyeing service is recognised over time (i.e. processing period) because our Group's performance enhances an asset that its customers controls as that asset is enhanced. We perform printing and dyeing services on grey fabrics provided by our customers.

For details regarding our accounting policy relating to our revenue recognition, see Note 5 to the Accountants' Report in Appendix I to this prospectus.

For the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, we recognised revenue of approximately RMB242.4 million, RMB238.3 million, RMB185.2 million and RMB274.3 million, respectively.

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are

classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

As at 31 December 2016, 2017 and 31 October 2018, the carrying values of our property, plant and equipment amounted to approximately RMB90.1 million, RMB104.0 million and RMB107.3 million, respectively.

Intangible assets

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

Our Group's intangible assets are computer software used in our Group's accounting system and production system and it is amortised on a straight-line basis based on the estimated useful life of ten years. Our management considers that such software is rather simple and does not involve high degree of technical, technological or commercial obsolescence. Therefore, our management estimates that the software is able to be used for a period of ten years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, which comprises all costs of purchase and, where applicable, cost of conversion and other costs

that have been incurred in bringing the inventories to their present location and condition, are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Estimated impairment of financial assets

Our Group reviews its trade receivables 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.

Before the adoption of IFRS 9 "Financial Instruments", our Directors estimate the amount of loss allowance under using incurred credit loss model. The impairment loss amount of the individual trade receivable is the net decrease in the present value of the estimated future cash flows, and the evidence of impairment may include observable data indicating that there is a measurable decrease in the estimated future cash flows of the individual trade receivable. Our Group periodically reviews its trade receivables to assess impairment individually and collectively except that there are known situation demonstrating impairment losses have occurred during that period. Our Group makes judgements as to whether there is any observable data indicating that an impairment loss should be recorded in the statement of profit or loss from a portfolio of trade receivables before the decrease can be identified with an individual trade receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of the counterparty (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the portfolio. Our Directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

Since the adoption of IFRS 9 on 1 January 2018, our Directors estimate the amount of loss allowance for expected credit losses (the "**ECL**") on trade receivables that are measured at amortised cost based on the credit risk of the trade receivables. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the trade receivable. The assessment of the credit risk of the trade receivable 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.

For details of the significant judgements required in applying the accounting requirements for measuring the ECL, please refer to Note 6 to the Accountants' Report included in Appendix I to this prospectus.

Recognition of deferred tax assets

The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax

assets may arise, which will be recognised in profit or loss in the periods in which such a reversal takes place. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted accordingly and recognised the corresponding amount in the consolidated statements of profit or loss and other comprehensive income in the periods in which such a situation takes place.

As at 31 December 2016, 2017 and 31 October 2018, the carrying amount of deferred tax assets was approximately RMB1.2 million, RMB0.7 million and RMB1.1 million, respectively.

Valuation of financial assets at fair value through profit or loss

Our Company has engaged an independent qualified professional valuer ("**Independent Valuer**"), who has appropriate qualification and recent experience in the valuation of similar instrument as management's expert to aid our Company's management in the determination of fair value of financial assets at fair value through profit or loss for the preparation of the financial statements for the Track Record Period.

Our Company has performed the following independent works in ascertaining the accuracy of the valuation report prepared by the Independent Valuer:

(i) performed independent investigations and assessments on aspects including but not limited to the nature of its investment, the merits of investment and any information material to the valuation of the investment;

(ii) discussed with the Independent Valuer on the valuation methodology and approach in carrying out the valuation; and

(iii) obtained and reviewed its underlying working papers in deriving the valuation.

Details of the fair value measurement of these financial assets at FVTPL, particularly the fair value hierarchy, the valuation techniques and key inputs, including the significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Note 38 to the Historical Financial Information of Group for the Track Record Period as set out in the Accountants' Report issued by the Reporting Accountants in accordance with "Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in Appendix I to this prospectus. For details of the Reporting Accountants' opinion on the Historical Financial Information of our Group for the Track Record Period, please refer to Appendix I to this prospectus.

Based on the above, our Directors are of the view, and the Sole Sponsor concurs, that the duty of care, skill and diligence of Directors in determining the valuation has been discharged.

RESULTS OF OPERATIONS

The following table sets forth our consolidated statements of profit or loss and other comprehensive income for the periods indicated, which is extracted from the Accountants' Report in Appendix I to this prospectus. Please read the following summary in conjunction with the Accountants' Report and the notes thereto:

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	242,386	238,309	185,186	274,261
Cost of sales and services	(207,382)	(192,247)	(148,848)	(220,523)
Gross profit	35,004	46,062	36,338	53,738
Other income	4,223	3,444	3,508	10,934
Other gains and losses	(1,383)	(3,715)	(5,849)	19,626
Selling and distribution expenses	(2,753)	(1,919)	(1,419)	(1,903)
Administrative expenses	(6,861)	(8,449)	(6,536)	(10,839)
Research expenditure	(6,862)	(6,446)	(4,796)	(8,268)
Listing expenses	–	–	–	(11,726)
Other expenses	(323)	(329)	(329)	(205)
Share of results of an associate	(1,818)	86	542	724
Finance costs	(8,284)	(8,202)	(6,720)	(6,215)
Profit before tax	10,943	20,532	14,739	45,866
Income tax expense	(2,022)	(2,759)	(3,292)	(4,331)
Profit and total comprehensive income for the year/period	8,921	17,773	11,447	41,535
Profit and total comprehensive income for the year/period attributable to:				
– Owners of our Company	8,353	13,947	9,025	34,746
– Non-controlling interests	568	3,826	2,422	6,789
	8,921	17,773	11,447	41,535

DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

During the Track Record Period, we 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 Track Record Period:

	Year ended 31 December				Ten months ended 31 October			
	2016		2017		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
					(unaudited)			
Sales of fabrics, recognised at a point in time	209,098	86.3	166,735	70.0	128,920	69.6	183,134	66.8
Service revenue from processing, printing and dyeing service, recognised over time	33,288	13.7	71,574	30.0	56,266	30.4	91,127	33.2
Total	242,386	100.0	238,309	100.0	185,186	100.0	274,261	100.0

Our total revenue was approximately RMB242.4 million, RMB238.3 million, RMB185.2 million and RMB274.3 million for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, respectively.

We develop polyester fabrics with different texture and functions, manufacture our products at our Huzhou Production Facilities and engage in direct sales to our PRC and overseas customers. Our fabric products included but not limited to brushed fabric, decorative fabric, imitation silk, sateen, pongee, polyester shirt fabric, taffeta, bed fabric, washed cashmere and oxford fabric. Revenue from the sales of fabrics decreased by approximately 20.3% from approximately RMB209.1 million for the year ended 31 December 2016 to approximately RMB166.7 million for the year ended 31 December 2017 reflecting the decrease of total volume of fabric sold from approximately 41.3 million metres in the previous year to approximately 38.3 million metres which was due to the expansion of our Group's printing and dyeing services which are generally with a higher profit margin. The decrease in revenue was also attributable to the decrease of average unit selling price of fabric from approximately RMB5.1 per metres in the previous year to approximately RMB4.4 per metres, which was due to the fabrics produced and sold by us during the year ended 31 December 2017 were with simpler technical requirements in general. Revenue from the sales of fabrics increased by approximately 42.1% from approximately RMB128.9 million for the ten months ended 31 October 2017 to approximately RMB183.1 million for the ten months ended 31 October 2018 reflecting the increase of total volume of fabrics sold from approximately 28.8 million metres for the ten

months ended 31 October 2017 to approximately 40.5 million metres for the ten months ended 31 October 2018, primarily as a result of (i) the increased sales orders for fabric products from our customers and (ii) our increased capacity to accept more sales orders after the completion of our technical upgrade. In 2017, the technical upgrade temporarily affected the printing and dyeing process of fabrics sold by us. The effect of production disruption was more significant during the commencement of technical upgrade in the first half of 2017. This resulted in a low revenue for the ten months ended 31 October 2017. On the other hand, for the ten months ended 31 October 2018, the increased capacity in printing and dyeing production facilities after the completion of technical upgrade allowed us to take in more orders for fabrics manufacturing. It provided the basis for the increase in revenue from sales of fabrics for the ten months ended 31 October 2018 as compared to the ten months ended 31 October 2017.

With a view to diversifying our source of revenue, we also engage in the provision of printing and dyeing services in the PRC. Service revenue from printing and dyeing increased by approximately 115.0% from approximately RMB33.3 million for the year ended 31 December 2016 to approximately RMB71.6 million for the year ended 31 December 2017. Such significant increase was mainly due to the expansion of our Group's printing and dyeing services, which was a result of (i) our planned expansion of our printing and dyeing services since 2016 which materialised during the technical upgrade in 2017, and (ii) the relatively higher gross profit margin of approximately 24.1% for the service revenue from printing and dyeing compared to the gross profit margin of approximately 12.9% for fabrics sales for the year ended 31 December 2016. The increase of approximately RMB34.8 million or 61.8% from approximately RMB56.3 million for the ten months ended 31 October 2017 to approximately RMB91.1 million for the ten months ended 31 October 2018, was primarily attributable to (i) our continuation of focus on services revenue from printing and dyeing after the completion of the technical upgrade based on the relatively higher gross profit margin of approximately 33.3% for the service revenue from printing and dyeing compared to approximately 12.8% for the sales of fabrics; and (ii) the increased sales orders for printing and dyeing services from our existing customers for the ten months ended 31 October 2018. As a result of the technical upgrade, the total number of our dyeing and setting machines increased from 24 to 62 and from five to 13 respectively. Most of them were acquired during the second half of 2017. For details of the technical upgrade, please refer to the section headed "Business – Production process – Production facilities and technical upgrade in 2017" in this prospectus.

Going forward, our Directors believe that demand for our fabric products from customers will remain stable while our service revenue from printing and dyeing will be on an increasing trend. With our close business relationships with the existing customers and with our increasing focus on the provision of high-profit-margin printing and dyeing services, we hope to translate these to a revenue growth, increased market share and better financial performance. For further details of the business strategies, please refer to the section headed "Business – Business strategies" in this prospectus.

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

	Year ended 31 December				Ten months ended 31 October			
	2016		2017		2017		2018	
	Sales Volume million metres	*Average Unit Selling Price/Metres RMB*	*Sales Volume million metres*	*Average Unit Selling Price/Metres RMB*	*Sales Volume million metres*	*Average Unit Selling Price/Metres RMB*	*Sales Volume million metres*	*Average Unit Selling Price/Metres RMB*
					(unaudited)			
Sales of fabrics	41.3	5.1	38.3	4.4	28.8	4.5	40.5	4.5
Printing and dyeing service	59.5	0.6	121.8	0.6	97.4	0.6	151.6	0.6
Total	100.8	2.4	160.1	1.5	126.2	1.5	192.1	1.4

The selling prices of our products primarily depend on the raw material prices, production costs, market conditions including the supply and demand, inventory level and the quality and features of the fabrics required by the customers. As set out above, the average unit selling price of our fabric products decreased from approximately RMB5.1 per metres for the year ended 31 December 2016 to approximately RMB4.4 per metres for the year ended 31 December 2017. Such change was mainly due to the change in product mix of the sales orders from our customers. The average unit selling price of our fabric products remained stable at approximately RMB4.5 per metres for the ten months ended 31 October 2017 and 2018.

For the printing and dyeing service, the average unit selling price were maintained at a level of RMB0.6 per metres for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018.

The following table sets out a breakdown of the revenue generated from the sales by geographical region of the customers for the Track Record Period:

	Year ended 31 December				Ten months ended 31 October			
	2016		2017		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
					(unaudited)			
PRC	132,745	54.8	173,844	72.9	145,544	78.6	200,372	73.1
Hong Kong	59,579	24.6	45,176	19.0	23,198	12.5	60,105	21.9
Other regions *(Note)*	50,062	20.6	19,289	8.1	16,444	8.9	13,784	5.0
Total	242,386	100.0	238,309	100.0	185,186	100.0	274,261	100.0

Note: The other regions mainly comprise Mexico, United Arab Emirates, Brazil, Korea and Chile.

During the Track Record Period, we generated majority of our sales from the PRC customers which contributed approximately 54.8%, 72.9%, 78.6% and 73.1% of our total sales for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, respectively. Following to the PRC customers, Hong Kong customers contributed the second largest sales to our Group. Approximately 24.6%, 19.0%, 12.5% and 21.9% of our total sales were generated from Hong Kong customers for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018.

Though our sales focus was mainly on customers from the PRC and Hong Kong, we received sales orders from customers of other foreign countries primarily with USD denominated sales orders during the year ended 31 December 2016 and first half of 2017 when the USD appreciated against RMB. Our sales from customers of these countries recorded decrease of approximately RMB30.8 million from a total of approximately RMB50.1 million for the year ended 31 December 2016 to approximately RMB19.3 million for the year ended 31 December 2017. Such decrease was mainly attributable to the loss of some USD denominated sales orders resulting from USD depreciation against RMB from USD1:RMB6.9370 as at 31 December 2016 to USD1:RMB6.5342 as at 31 December 2017 which in turn resulted in a less competitive pricing in USD as our production costs are denominated in RMB. Furthermore, as we generally grant a credit period of 30 to 90 days to our overseas customers, any depreciation of USD against RMB during such period will result in a reduced equivalent amount in RMB received by us and affect our profitability. Similarly, due to the less competitive pricing for the USD denominated sales order resulting from USD depreciation against RMB during the first half of 2018 when compared with the same period in 2017, our sales from customers of other foreign countries recorded a decrease by approximately RMB2.7 million for the ten months ended 31 October 2018 when compared to the same period in 2017.

Despite the fact that there were less sales for customers from other foreign countries compared to that in 2016, our management are confident that we would have stable growth in our overall sales with the strong demand from the PRC customers, which was reflected in the sales growth of approximately 31.0% from the PRC customers from approximately RMB132.7 million for the year ended 31 December 2016 to approximately RMB173.8 million for the year ended 31 December 2017. Such increase trend continued for the ten months ended 31 October 2018 with a sales growth of approximately 37.7% from the PRC customers compared to that for the ten months ended 31 October 2017.

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.

	Year ended 31 December				Ten months ended 31 October			
	2016		2017		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
					(unaudited)			
Cost of sales and services								
Raw materials	166,122	80.1	136,792	71.2	112,346	75.5	159,672	72.4
(Grey fabrics) [(Note 1)]	*146,359*	*70.6*	*114,634*	*59.6*	*93,405*	*62.8*	*132,571*	*60.1*
(Dyes and other additives) [(Note 2)]	*19,763*	*9.5*	*22,158*	*11.6*	*18,941*	*12.7*	*27,101*	*12.3*
Utility costs	23,167	11.2	36,746	19.1	24,254	16.3	40,641	18.4
Direct labour costs	6,997	3.4	7,764	4.0	5,173	3.5	7,410	3.4
Depreciation	6,466	3.1	7,757	4.0	4,703	3.1	8,891	4.0
Others [(Note 3)]	4,630	2.2	3,188	1.7	2,372	1.6	3,909	1.8
Total	207,382	100.0	192,247	100.0	148,848	100.0	220,523	100.0

Notes:

(1) Costs of grey fabrics include weaving subcontracting fees recognised in cost of sales and services which amounted to approximately RMB3.9 million, RMB6.1 million, RMB4.4 million and RMB9.0 million for the relevant periods respectively. The increase in weaving subcontracting fees of approximately RMB2.2 million for the year ended 31 December 2017 as compared to the year ended 31 December 2016 was in line with the increase in volume of grey fabrics produced by subcontractors from approximately 12.9 million metres for 2016 to approximately 17.8 million metres for 2017. The increase in weaving subcontracting fees recognised in cost of sales and services of approximately RMB4.5 million for the ten months ended 31 October 2017 as compared to the ten months ended 31 October 2018 was also in line with the increase in volume of grey fabrics produced by subcontractors from approximately 13.7 million metres for the relevant period in 2017 to approximately 24.6 million metres for the relevant period in 2018.

(2) Costs of dyes and other additives include printing and dyeing subcontracting fees recognised in cost of sales and services which amounted to approximately RMB2.2 million, RMB3.5 million, RMB3.1 million and RMB3.3 million for the relevant periods respectively. The increase in printing and dyeing

subcontracting fees of approximately RMB1.3 million for the year ended 31 December 2017 as compared to the year ended 31 December 2016 was in line with the increase in actual production volume for printing and dyeing services from approximately 83.4 million metres for 2016 to approximately 140.0 million metres for 2017 and the higher utilisation rate of the printing and dyeing production facilities from approximately 89.7% to 94.9% during the relevant periods.

(3) Others mainly include maintenance costs and machinery consumables.

Raw materials was the major component of our cost of sales and services, which accounted for approximately 80.1%, 71.2%, 75.5% and 72.4% of our total cost of sales and services for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018. Raw materials consumed included raw materials used in the production of our printed and dyed fabric products, such as grey fabrics, dyes and other additives for fabrics. The principal raw material used in our production of grey fabrics (i.e. weaving process) is chemical fibre. The decrease in our raw materials recognised in cost of sales and services for the year ended 31 December 2017 as compared to the year ended 31 December 2016 was in line with the less units of fabric products sold by approximately 3.0 million metres. Our raw materials recognised in cost of sales and services amounted to approximately RMB112.3 million and RMB159.7 million for the ten months ended 31 October 2017 and 2018, respectively. The increase of approximately RMB47.3 million in our raw materials consumed was generally in line with the increase in the units of fabric products sold by approximately 11.7 million metres and the increase in the purchase costs of chemical fibres in 2018.

Utility costs, which mainly comprise costs of electricity, coal and gas, steam, and water treatment was the second largest component of our cost of sales and services. Utility costs represented approximately 11.2%, 19.1%, 16.3% and 18.4% of our total cost of sales and services for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, respectively. The increase of approximately RMB13.6 million for the year ended 31 December 2017 compared to that of previous year was mainly due to the increase in utility consumption, especially the usage of gas and steam with an increase of approximately RMB9.7 million and RMB7.4 million, respectively as we replaced coal with gas and steam for our production since February 2017. Utility costs increased approximately RMB16.4 million or 67.6% for the ten months ended 31 October 2018 compared to that of 2017, mainly due to the increase in electricity and gas consumption of approximately RMB4.0 million and RMB9.4 million respectively for the higher production activities taken place for printing and dyeing process.

Direct labour costs, which comprise wages and benefits for personnel directly involved in our production processes was the third largest component of our cost of sales and services, accounting for approximately 3.4%, 4.0%, 3.5% and 3.4% of our total cost of sales and services for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, respectively. The direct labour cost remained relatively stable for the two years ended 31 December 2017. The increase of approximately RMB0.8 million was mainly due to the increase of headcount for production from 195 staff as at 31 December 2016 to 288 staff as at 31 December 2017 as a result of our increased number of production machinery in 2017 during our technical upgrade which required more manpower to operate. The direct labour cost recognised in cost of sales and services increased by approximately 43.2% from approximately RMB5.2

million for the ten months ended 31 October 2017 to approximately RMB7.4 million for the ten months ended 31 October 2018, primarily as a result of hiring more production staff from 246 production staff as at 31 October 2017 to 307 production staff as at 31 October 2018, and with an increased average wages per headcount.

Based on our best estimates, for illustrative purpose only, the table below shows the sensitivity of our profit before tax during the Track Record Period with regard to certain possible changes in the cost of raw materials, utility costs and direct labour costs during the same period, assuming all other variables remain constant:

		Year ended 31 December				Ten months ended 31 October			
		2016		2017		2017		2018	
	Increase/ (decrease) in percentage	(Decrease)/ increase in profit before tax *RMB'000*	(Decrease)/ increase in profit after tax *RMB'000*	(Decrease)/ increase in profit before tax *RMB'000*	(Decrease)/ increase in profit after tax *RMB'000*	(Decrease)/ increase in profit before tax *RMB'000*	(Decrease)/ increase in profit after tax *RMB'000*	(Decrease)/ increase in profit before tax *RMB'000*	(Decrease)/ increase in profit after tax *RMB'000*
						(unaudited)			
Cost of raw materials	5%	(8,306)	(6,769)	(6,840)	(5,923)	(5,617)	(4,365)	(7,984)	(7,133)
	(5%)	8,306	6,769	6,840	5,923	5,617	4,365	7,984	7,133
	10%	(16,612)	(13,539)	(13,679)	(11,846)	(11,235)	(8,729)	(15,967)	(14,466)
	(10%)	16,612	13,539	13,679	11,846	11,235	8,729	15,967	14,466
Utility costs	5%	(1,158)	(944)	(1,837)	(1,591)	(1,213)	(942)	(2,332)	(2,113)
	(5%)	1,158	944	1,837	1,591	1,213	942	2,332	2,113
	10%	(2,317)	(1,888)	(3,675)	(3,182)	(2,425)	(1,885)	(4,664)	(4,226)
	(10%)	2,317	1,888	3,675	3,182	2,425	1,885	4,664	4,226
Direct labour costs	5%	(350)	(285)	(388)	(336)	(259)	(201)	(371)	(336)
	(5%)	350	285	388	336	259	201	371	336
	10%	(700)	(570)	(776)	(672)	(517)	(402)	(741)	(671)
	(10%)	700	570	776	672	517	402	741	671

If the increases of actual market prices of our raw materials exceed the price range we estimate when we negotiate our procurement with our suppliers and our product prices with our customers, and the utility consumption and direct labour costs exceeds the range that we would expect, the increased cost of raw materials, utility costs and direct labour costs may have a material and adverse effect on our results of operations and financial condition.

Please refer to the section headed "Risk Factors – Risks relating to our business" in this prospectus for further information on the above factors and other factors that may affect our revenue.

Gross profit and gross profit margin

Our gross profit was approximately RMB35.0 million, RMB46.1 million, RMB36.3 million and RMB53.7 million for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, respectively. The table below sets out our gross profit and gross profit margin by sales category during the Track Record Period:

	Year ended 31 December				Ten months ended 31 October			
	2016		2017		2017		2018	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
					(unaudited)			
Sales of fabrics	26,982	12.9	22,159	13.3	18,656	14.5	23,373	12.8
Printing and dyeing service	8,022	24.1	23,903	33.4	17,683	31.4	30,365	33.3
Total/overall	35,004	14.4	46,062	19.3	36,339	19.6	53,738	19.6

During the Track Record Period, the gross profit margin of our sales of fabrics was within a range of approximately 12.8% to 14.5%. The increase of approximately 0.4% for the year ended 31 December 2017 as compared to that of the year ended 31 December 2016 was mainly due to the introduction of our new fabric products series such as polyester shirt fabric, imitation printed cotton and polyester curtain fabric with relatively higher gross profit margin, respectively. The gross profit margin of our sales of fabrics decreased by approximately 1.7% from approximately 14.5% for the ten months ended 31 October 2017 to approximately 12.8% for the ten months ended 31 October 2018. Such decrease was mainly due to the change in product mix of the purchase orders from our customers as well as the management's strategic sales and production of fabric products involving simpler production process, cheaper selling price and lower gross profit margin. In view of the expansion of our Group's printing and dyeing services, we intended to allocate more resources for our provision of printing and dyeing services. Therefore, it is our strategy to produce and sell fabrics involving simpler production process (i.e. less printing and dyeing steps).

The gross profit margin of our printing and dyeing service increased by approximately 9.3% from approximately 24.1% for the year ended 31 December 2016 to approximately 33.4% for the year ended 31 December 2017 and increased by 1.9% from approximately 31.4% for the ten months ended 31 October 2017 to approximately 33.3% for the ten months ended 31 October 2018. Such increase was mainly due to:

(i) we underwent technical upgrade of our printing and dyeing machinery and equipment in the Huzhou Production Facilities in 2017 which partially affected the operation and reduced the production capacity of our Huzhou Production Facilities during the five months ended 31 May 2017 and resulted in a lower revenue derived from the printing and dyeing services segment for the same period. During the first five months of 2017, the operation of certain dyeing machines and setting machines were suspended. Set out below are the respective number of dyeing and setting machines with suspended operation during the five months ended 31 May 2017:

	Five months ended 31 May 2017				
Machine type	**January**	**February**	**March**	**April**	**May**
Dyeing machine	12	12	18	18	12
Setting machine	2	2	4	4	2

Due to the reduced production capacity, we were only capable of handling simpler printing and dyeing orders with a lower profit margin in the first five months of 2017;

(ii) since the acquisition of additional dyeing machines and setting machines in June 2017, the operation of our Huzhou Production Facilities gradually resumed to full-scale operation. With the fleet of printing and dyeing machines and expanded production capacity, we were capable of handling more complex printing and dyeing orders such as those requiring repeated dyeing processes which are generally with higher profit margin; and

(iii) the technical upgrade achieved cost-saving by economies of scales. Since the fixed cost for printing and dyeing service were relatively stable such as raw materials and utility costs, the printing and dyeing cost per metres would decrease with the increasing printing and dyeing service sales and production volume.

For instance, a dyeing machine requires cleansing if the target colour needs any adjustment which results in disposal of the remainder in the dyeing machines such as dye and other additives. On the other hand, no cleansing is required if the dyeing colour remains the same. Therefore, with increased number of dyeing machines, the occasions where the dyeing machines require cleansing will decrease and the operating costs will decrease accordingly. Furthermore, as certain costs of sales and services (e.g. direct labour costs and depreciation of fixed assets) remained fixed expenses irrespective of the production capacity or volume, it resulted in a slightly higher gross profit margin for printing and dyeing services for the ten months ended 31 October 2018.

Revenue and gross profit by product mix

Our revenue from sales of fabrics by major type of fabrics during the Track Record Period is set out below:

	Year ended 31 December				Ten months ended 31 October			
	2016		2017		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
					(unaudited)			
Bed linen	17,442	8.3	8,886	5.3	6,851	5.3	4,915	2.7
Brushed fabric	58,310	27.9	23,299	14.0	9,942	7.7	34,938	19.1
Decorative fabric	45,684	21.8	34,982	21.0	31,437	24.4	36,747	20.1
Imitation silk	28,588	13.7	20,076	12.0	14,640	11.4	17,285	9.4
Sateen	20,521	9.8	11,912	7.1	9,764	7.6	21,264	11.6
Other *(Note)*	38,553	18.5	67,580	40.6	56,286	43.6	67,985	37.1
Total	209,098	100	166,735	100	128,920	100.0	183,134	100.0

Note: Other fabrics mainly comprise pongee, polyester shirt fabric, oxford fabric, imitation printed cotton, polyester curtain fabric and spandex.

Our gross profit margin from sales of fabrics by major type of fabrics during the Track Record Period is set out below:

	Year ended 31 December				Ten months ended 31 October			
	2016		2017		2017		2018	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
					(unaudited)			
Bed linen	1,555	8.9	717	8.1	495	7.2	612	12.5
Brushed fabric	7,642	13.1	2,814	12.1	1,015	10.2	4,916	14.1
Decorative fabric	4,978	10.9	3,338	9.5	2,992	9.5	4,228	11.5
Imitation silk	4,937	17.3	3,593	17.9	2,961	20.2	2,308	13.4
Sateen	3,270	15.9	1,466	12.3	1,648	16.9	2,482	11.7
Other *(Note)*	4,600	11.9	10,231	15.1	9,545	17.0	8,827	13.0
Total/overall	26,982	12.9	22,159	13.3	18,656	14.5	23,373	12.8

Note: Other fabrics mainly comprise pongee, polyester shirt fabric, oxford fabric, imitation printed cotton, polyester curtain fabric and spandex.

Brushed fabrics

The revenue derived from our sales of brushed fabrics decreased from approximately RMB58.3 million for the year ended 31 December 2016 to approximately RMB23.3 million for the year ended 31 December 2017. This was mainly due to the decrease in revenue in the sales of brushed fabrics to our largest customer, Shanghai Dragon Corporation (上海龍頭集團股份有限公司) in 2017 for approximately RMB29.1 million as a result of its change of product mix purchased by Shanghai Dragon Corporation. During the same period, the gross profit margin remained stable.

The revenue derived from our sales of brushed fabrics increased from approximately RMB9.9 million for the ten months ended 31 October 2017 to approximately RMB34.9 million for the ten months ended 31 October 2018 as a result of the increase in purchase of brushed fabrics by Shanghai Dragon Corporation due to the increasing demand from its ultimate customers for the brushed fabrics products. During the same period, the gross profit margin of brushed fabrics increased from approximately 10.2% to 14.1%. This was mainly due to the brushed fabrics with higher profit margins sold by us to Shanghai Dragon Corporation as a result of the increased market demand.

Decorative fabrics

The revenue derived from our sales of decorative fabrics decreased from approximately RMB45.7 million for the year ended 31 December 2016 to approximately RMB35.0 million for the year ended 31 December 2017 which was in line with the general decrease in revenue from our sale of fabrics as a result of the expansion of our Group's printing and dyeing services. The gross profit margin recorded a slight decrease from approximately 10.9% to 9.5% during the same period.

The revenue derived from our sales of decorative fabrics increased from approximately RMB31.4 million for the ten months ended 31 October 2017 to approximately RMB36.7 million for the ten months ended 31 October 2018. The gross profit margin recorded an increase from approximately 9.5% to 11.5% during the same period. This was mainly due to our sale of decorative fabrics with higher quality and unit price to World Sunshine Trading Limited (菱克斯環球貿易有限公司).

Imitation silk

The revenue derived from our sales of imitation silk decreased from approximately RMB28.6 million for the year ended 31 December 2016 to approximately RMB20.1 million for the year ended 31 December 2017 which was in line with the general decrease in revenue from our sale of fabrics as a result of the expansion of our Group's printing and dyeing services. The gross profit margin remained stable during the same period.

The revenue derived from our sales of imitation silk increased from approximately RMB14.6 million for the ten months ended 31 October 2017 to approximately RMB17.3 million for the ten months ended 31 October 2018. The gross profit margin recorded a decrease from approximately 20.2% to 13.4% during the same period.

Sateen

The revenue derived from our sales of sateen decreased from approximately RMB20.5 million for the year ended 31 December 2016 to approximately RMB11.9 million for the year ended 31 December 2017. Such decrease was mainly attributable to the expansion of our Group's printing and dyeing services and reduced purchase from a few major customers in our sales of sateen in 2017 due to their cessation in producing the relevant products which required sateen. The gross profit margin recorded a decrease from approximately 15.9% to 12.3% during the same period. This was mainly due to the increase in raw material costs which adversely impacted the gross profit margin of sateen.

The revenue derived from our sales of sateen increased from approximately RMB9.8 million for the ten months ended 31 October 2017 to approximately RMB21.3 million for the ten months ended 31 October 2018 as a result of the increase in purchase of sateen by Shanghai Dragon Corporation and the purchase from certain new customers in 2018. The gross profit margin recorded a decrease from approximately 16.9% to 11.7% during the same period. This was mainly due to the sateen sold by us were with simpler structure which resulted in a lower unit price.

Bed linen

The revenue derived from our sales of bed linen decreased from approximately RMB17.4 million for the year ended 31 December 2016 to approximately RMB8.9 million for the year ended 31 December 2017. This was mainly due to the decrease in revenue in the sales of bed linen to Shanghai Dragon Corporation in 2017 for approximately RMB7.9 million. The gross profit margin remained stable during the same period.

The revenue derived from our sales of bed linen decreased from approximately RMB6.9 million for the ten months ended 31 October 2017 to approximately RMB4.9 million for the ten months ended 31 October 2018. Such decrease was mainly attributable to the decrease in revenue in the sales of bed linen to Shanghai Dragon Corporation in 2018. The gross profit margin recorded an increase from approximately 7.2% to 12.5% during the same period. This was mainly due to the decrease in subcontracting fees for sewing of bed linen which resulted in cost saving.

Other income

The following table sets out the breakdown of our other income for the Track Record Period:

	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income	340	16	14	13
Sales of scraps	–	–	–	1,937
Government subsidies	2,607	2,076	2,076	4,219
Sales of raw materials	573	295	387	3,464
Dividend received from available-for-sale investment	688	984	984	–
Dividend received from financial asset mandatorily measured at FVTPL	–	–	–	1,059
Rental income	–	54	36	138
Others	15	19	11	104
Total	4,223	3,444	3,508	10,934

Our other income was approximately RMB4.2 million, RMB3.4 million, RMB3.5 million and RMB10.9 million for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, respectively. The slight decrease of approximately RMB0.8 million for the year ended 31 December 2017 compared to that for 2016 was primary because of the decrease in government subsidies, while the increase of approximately RMB7.4 million for the ten months ended 31 October 2018 compared to that for the ten months ended 31 October 2017 was mainly due to the increase in sales of scraps and sales of raw materials and the increase in government subsidies.

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

Income derived from sales of raw materials remained steady for the two years ended 31 December 2017. During the ten months ended 31 October 2018, our customers requested more raw materials from us for urgent use, we thereby sold them the raw materials in stock which caused an increase income derived from sales of raw materials of approximately RMB3.1 million for the ten months ended 31 October 2018 compared to that for the ten months ended 31 October 2017.

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

Dividend received from financial asset mandatorily measured at FVTPL and available-for-sale investment during the Track Record Period represented the dividend received from the equity investment in Changxing Rural Commercial Bank owned by our Group for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018. The dividend received were relatively stable during the Track Record Period. On 18 December 2018, our Group and an Independent Third Party, namely Zhejiang Hongchen Printing and Dyeing Co., Ltd.* (浙江弘晨印染科技股份有限公司) ("**Zhejiang Hongchen**") entered into a sale and purchase agreement, pursuant to which Zhejiang Hongchen agreed to purchase all our 7,565,794 shares (representing approximately 1.07% of the total number of shares) in Changxing Rural Commercial Bank at a consideration of RMB20 million. Our Group did not have any other material investments as at the Latest Practicable Date which can be realised to improve our liquidity position after our disposal of equity interest in Changxing Hengli Financing to an Independent Third Party on 30 March 2018 and the aforesaid disposal. For further details, please refer to the section headed "History, Development and Reorganisation – Disposal of shares in Changxing Rural Commercial Bank" in this prospectus.

Other gains and losses

The following table sets out the breakdown of our other gains and losses for the Track Record Period:

	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(unaudited)	
Loss on disposal of property, plant and equipment	(793)	(5,231)	(5,231)	(1,328)
Loss on change in fair value of financial assets mandatorily measured at FVTPL	–	–	–	(366)
Gain on disposal of an associate	–	–	–	23,003
Net exchange gains/(losses)	1,153	(476)	(430)	(1,237)
(Recognition)/reversal of loss allowances on trade receivables	(2,006)	1,220	(342)	(446)
Reversal of loss allowances on other receivables	263	772	154	–
Total	(1,383)	(3,715)	(5,849)	19,626

Loss on disposal of property, plant and equipment primary represented the loss incurred through disposing old or low-tech machinery and production equipment with minimal disposal proceeds during the Track Record Period. The significant loss on disposal of property, plant and

equipment for the year ended 31 December 2017 and the ten months ended 31 October 2017 was mainly due to the disposal of a large batch of 10 low-tech machinery with net book value of approximately RMB5.6 million during the technical upgrade process of our fabric production facilities.

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

The net exchange gains and losses during the Track Record Period mainly caused by currency depreciation of RMB against USD for the year ended 31 December 2016; and currency appreciation of RMB against USD for the year ended 31 December 2017 and the ten months ended 31 October 2017 and 2018.

Recognition or reversal of loss allowances on trade and other receivables were provided based on the management's assessment at each of the reporting date whether there is objective evidence that trade and other receivables are impaired. For details of the movement of loss allowance, please refer to the paragraph headed "Description and analysis of selected items from the consolidated statement of financial position – Trade, bill and other receivables – Trade receivables" in this section.

Selling and distribution expenses

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

	Year ended 31 December				Ten months ended 31 October			
	2016		2017		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
					(unaudited)			
Transportation expenses	1,186	43.1	751	39.1	629	44.3	605	31.8
Packaging expenses	1,083	39.3	394	20.5	367	25.9	622	32.7
Exhibition expenses	179	6.5	343	17.9	251	17.7	190	10.0
Export fees	6	0.2	243	12.7	21	1.5	481	25.3
Others *(Note)*	299	10.9	188	9.8	151	10.6	5	0.3
Total	2,753	100.0	1,919	100.0	1,419	100.0	1,903	100.0

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

Our selling and distribution expenses decreased by approximately RMB0.9 million or approximately 30.3% from approximately RMB2.8 million for the year ended 31 December 2016 to approximately RMB1.9 million for the year ended 31 December 2017. The decrease was mainly due to a decrease in transportation expenses of approximately RMB0.4 million and packaging expenses of approximately RMB0.7 million resulting from the decreased sales of fabrics and increased services revenue from printing and dyeing. Our printing and dyeing services customers generally pick up the finished products at our Huzhou Production Facilities and have simpler packaging requirements resulting in a decrease in transportation expenses and packaging expenses. Our selling and distribution expenses increased by approximately RMB0.5 million or approximately 34.1% from approximately RMB1.4 million for the ten months ended 31 October 2017 to approximately RMB1.9 million for the ten months ended 31 October 2018. The increase was mainly due to an increase in export fees of approximately RMB0.5 million.

Administrative expenses

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

The following table sets out a breakdown of our administrative expenses for the Track Record Period:

	Year ended 31 December				Ten months ended 31 October			
	2016		2017		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
					(unaudited)			
Staff costs	2,266	33.0	4,282	50.7	2,800	42.8	5,899	54.4
Entertainment expenses	515	7.5	685	8.1	440	6.7	884	8.2
Travelling expenses	311	4.5	275	3.3	235	3.6	326	3.0
Office expenses	118	1.7	164	1.9	73	1.1	356	3.3
Professional service fee	1,693	24.7	1,181	14.0	1,102	16.9	766	7.1
Utility expenses	253	3.7	312	3.7	312	4.8	99	0.9
Depreciation and amortisation	841	12.3	855	10.1	705	10.8	1,010	9.3
Insurance expenses	156	2.3	112	1.3	96	1.5	218	2.0
Others *(Note)*	708	10.3	583	6.9	775	11.9	1,278	11.8
Total	6,861	100.0	8,449	100.0	6,538	100.0	10,836	100.0

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

Our administrative expenses increased by approximately RMB1.6 million or approximately 23.1% from approximately RMB6.9 million for the year ended 31 December 2016 to approximately RMB8.4 million for the year ended 31 December 2017. The increase was mainly

due to an increase in staff costs of approximately RMB2.0 million resulting from the increase of headcount of 113 staff and an increase of approximately 7% in average salary. Our administrative expenses increased by approximately RMB4.3 million or approximately 65.7% from approximately RMB6.5 million for the ten months ended 31 October 2017 to approximately RMB10.8 million for the ten months ended 31 October 2018. The increase was mainly a result of an increase in staff costs of approximately RMB3.1 million due to increase in headcount of 95 staff with an increase of approximately 20.2% in average salary. The increase in staff costs were mainly due to (i) the increase in headcount which was in line with the increase in designed annual capacity of the Huzhou Production Facilities. Our Company acquired four setting machines during the same period and each such machine generally requires 12 additional staffs so as to maintain its 24-hour operation. Other than the aforesaid 48 staffs for the operation of the four setting machines, as the capacity of printing and dyeing increased, we would also need additional staffs for carrying out the other production steps of our printing and dyeing process, i.e. preparatory work such as decoiling and pre-setting, dyeing and finishing work such as coiling and packing. Therefore, our Company employed additional staffs (i.e. 47 staffs) to control other machines such as dyeing machines, to operate the equipment and ancillary facilities acquired in the same period and to facilitate the expansion of different stages throughout the whole business process; and (ii) the increase in average salary as a strategy to retain and attract staff. Our employees of the production department and the research and development department have approximately 17.6% and 38.8% increase in average salary for the same period.

Research expenditure

Our Group has been focusing on research and development of efficient and environmental-friendly technology for textile printing and dyeing. We carry out our research and development projects at our laboratory in our Huzhou Production Facilities. Our research expenditure was approximately RMB6.9 million, RMB6.4 million, RMB4.8 million and RMB8.3 million for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, respectively. The expenditure comprised of (i) the costs of our staff involving in our research and development projects, (ii) the direct usage of raw materials for pilot-run of production and testing purpose, and (iii) the depreciation of the research and development machinery and equipment. For details of our research, please refer to the section headed "Business – Research and development" in this prospectus.

Research expenditure were relatively stable for the two years ended 31 December 2017. The increase of approximately RMB3.5 million in research expenditure for the ten months ended 31 October 2018 compared to that for the ten months ended 31 October 2017 was mainly due to the increase in direct usage of different materials of approximately RMB3.1 million during the testing and analysing process and increase in staff costs of approximately RMB0.9 million resulting from an additional manpower devoted in our research and development projects.

Other expenses

The following table sets out a breakdown of our other expenses for the Track Record Period:

	Year ended 31 December				Ten months ended 31 October			
	2016		2017		2017		2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
					(unaudited)			
Donations	270	83.6	271	82.4	271	82.4	200	97.6
Others	53	16.4	58	17.6	58	17.6	5	2.4
Total	323	100.0	329	100.0	329	100.0	205	100.0

Our other expenses amounted to approximately RMB0.3 million, RMB0.3 million, RMB0.3 million and RMB0.2 million for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018 respectively, which were relatively stable.

Finance costs

For the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, our finance costs amounted to approximately RMB8.3 million, RMB8.2 million, RMB6.7 million and RMB6.2 million, respectively. Our finance costs mainly comprised of the interest expense on our bank and other borrowings. The finance cost remained at a stable level for the two years ended 31 December 2017. Similarly, there were no material change in finance costs for the ten months ended 31 October 2017 and 2018.

Income tax expense

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

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

No provision for Hong Kong profits tax was made during the Track Record Period as our Group had no assessable profit subject to Hong Kong profits tax during the Track Record Period.

Under the Law of the PRC Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Huzhou Narnia is

recognised as a High and New Technology Enterprise* (高新技術企業) and therefore entitled to a preferential tax rate of 15% from 1 January 2014 to 31 December 2016. The certificate is renewed on 13 November 2017 with an extension on preferential period of a term of further three years from 1 January 2017 to 31 December 2019.

The following table sets forth a breakdown of our current and deferred tax expenses for the Track Record Period.

	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax				
PRC Enterprise Income Tax	2,379	2,272	3,288	5,555
Deferred tax (credit)/charge	(357)	487	4	(1,224)
Total	2,022	2,759	3,292	4,331

Our Group's effective tax rate was approximately 18.5%, 13.4%, 22.3% and 9.4% for the two years ended 31 December 2017 and the ten months ended 31 October 2017 and 2018, respectively. The effective tax rate for the year ended 31 December 2016 was higher than that for the year ended 31 December 2017 by approximately 5.1%. Such difference was mainly due to (i) the loss of approximately RMB1.8 million (2017: a slight gain of approximately RMB0.1 million) recognised from the share of result of an associate for the year ended 31 December 2016 which did not impose any tax impact to our Group, and (ii) there was an additional qualified tax deduction relating to the research and development costs incurred for the year ended 31 December 2017 with a tax effect of approximately RMB0.8 million (2016: nil).

The relatively high effective tax rate of approximately 22.3% for the ten months ended 31 October 2017 was mainly due to the loss of approximately RMB0.5 million from the share of result of an associate which did not impose any tax impact to our Group and offset by the effect of dividends received from unlisted equity investment which was non-taxable in nature.

The relatively low effective tax rate of approximately 9.4% for the ten months ended 31 October 2018 was mainly resulting from the gain on disposal of an associate of approximately RMB23.0 million which was non-taxable in nature.

Profit and other comprehensive income for the year/period

As a result of the foregoing, our profit for the year attributable to owners of our Company has increased by approximately 66.7% from approximately RMB8.4 million for the year ended 31 December 2016 to approximately RMB14.0 million for the year ended 31 December 2017.

Our profit for the period attributable to owners of our Company enlarged from approximately RMB9.0 million for the ten months ended 31 October 2017 to approximately RMB34.7 million for the ten months ended 31 October 2018. Excluding the expenses incurred in connection with the Listing, profit would be approximately RMB46.5 million for the ten months ended 31 October 2018.

ANALYSIS OF FINANCIAL POSITION

The following table sets out details of our current assets and liabilities as of the dates indicated:

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Inventories	69,773	78,012	73,467
Prepaid lease payments	170	170	170
Trade, bills and other receivables	55,727	26,574	35,735
Receivables at fair value through other comprehensive income ("**FVTOCI**")	–	–	196
Tax recoverable	155	301	–
Restricted bank balances	202	–	–
Bank balances and cash	9,439	5,062	3,163
	135,466	110,119	112,731
Current liabilities			
Trade and other payables	50,337	35,407	42,409
Bills payables	192	–	–
Contract liabilities	2,319	2,477	10,162
Bank borrowings	124,396	126,720	96,421
Tax payable	166	–	3,101
Dividend payable	–	92	92
Finance lease obligations	2,343	2,616	395
	179,753	167,312	152,580
Net current liabilities	(44,287)	(57,193)	(39,849)

Our net current liabilities represent the difference between our total current assets and total current liabilities.

Our Group recorded a net current liabilities position as at 31 December 2016 and 2017, and 31 October 2018, primarily due to the large amount of capital expenditure, which was invested in machinery and equipment as well as our own production facilities as reported under our non-current assets, being funded by bank borrowings of which the current portion were reported under our current liabilities.

The net current liabilities as at 31 December 2017 increased by approximately RMB12.9 million or approximately 29.1% comparing to that as at 31 December 2016, which was mainly attributable to (i) the increase in current portion of bank borrowings of approximately RMB2.3 million; (ii) payment of dividends of approximately RMB25.7 million; and (iii) the decrease of trade, bills and other receivables of approximately RMB29.2 million, and offset by the decrease of trade and other payables of approximately RMB14.9 million.

The net current liabilities as at 31 October 2018 decreased by approximately RMB17.3 million or approximately 30.3% comparing to that as at 31 December 2017, which was mainly a result of (i) the increase of trade, bills and other receivables of approximately RMB9.2 million; and (ii) the repayment of bank borrowing, which decreased the current portion of bank borrowing of approximately RMB30.3 million, while offset by approximately RMB7.7 million resulted from the increase of contract liabilities.

Going concern and working capital sufficiency

In light of the fact that our Group had current liabilities exceeded its current assets by approximately RMB39.8 million as at 31 October 2018, our Directors have given careful consideration to the going concern of our Group.

In respect of the bank borrowings with carrying amount of approximately RMB110.7 million as at 31 October 2018, of which approximately RMB96.4 million will be matured in the coming next 12 months after 31 October 2018 in accordance with the repayment schedule of the respective agreements and have not been renewed as at the Latest Practicable Date. Our Directors are of the view that our Group would be able to renew the majority of these borrowings upon their maturity or extend their maturity date, based on the relationship and successful renewal history with the banks.

Furthermore, as at 31 October 2018, our Group has available unutilised banking facilities amounted to RMB27.4 million. Our Group has further obtained additional unutilised banking facilities totaling RMB6.4 million and as at the Latest Practicable Date, our Group has available unutilised banking facilities amounted to RMB33.8 million.

In order to relieve from our financial stress, our Group and an Independent Third Party, namely Zhejiang Hongchen entered into a sale and purchase agreement, pursuant to which Zhejiang Hongchen agreed to purchase all our 7,565,794 shares (representing approximately 1.07% of the total number of shares) in Changxing Rural Commercial Bank from us at a consideration of RMB20 million on 18 December 2018. Such consideration was based on a valuation report issued by an independent valuer and the estimated fair value of 1.07% equity

interest in Changxing Rural Commercial Bank was approximately RMB18.7 million as at 31 May 2018. For further details, please refer to the section headed "History, Development and Reorganisation – Disposal of shares in Changxing Rural Commercial Bank."

Taking into account of the financial resources available to our Group, including cash and cash equivalent on hand and internally generated funds, presently available facilities, probable renewal of existing facilities and estimated net proceeds from the Listing, our Directors are of the view that our Group has sufficient working capital to meet its needs for at least twelve months from the date of this prospectus. Hence, the Historical Financial Information have been prepared on a going concern basis.

DESCRIPTION AND ANALYSIS OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Property, plant and equipment

During the Track Record Period, our property, plant and equipment mainly represented buildings, furniture, fixtures and equipment, machinery, motor vehicles as well as construction in progress/assets under installation. As at 31 December 2016 and 2017, and 31 October 2018, our property, plant and equipment amounted to approximately RMB90.1 million, RMB104.0 million and RMB107.3 million, respectively. The carrying amount of our property, plant and equipment increased significantly during the Track Record Period was mainly as the results of the replacement of obsolete production facilities during the technical upgrade took place in 2017 and the continuous improvement of our production lines with new equipment and machinery.

During the ten months ended 31 October 2018, we have construction in progress transferred to buildings amounted to approximately RMB8.3 million representing the completion of our factory expansion which we engaged Independent Third Party construction companies to build these infrastructures. Throughout the Track Record Period, our assets under installation transferred to equipment and machinery amounted to approximately RMB1.2 million, RMB1.4 million and RMB3.3 million, respectively, representing the completion of installation of our equipment and machinery acquired from Independent Third Parties.

Inventories

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

During the Track Record Period, no allowance for inventory provision was provided against obsolete inventory.

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

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	44,968	26,138	43,886
Work in progress	3,415	5,196	5,486
Finished goods	21,390	46,678	24,095
Total	69,773	78,012	73,467

We generally speed up our production schedule and produce more finished goods in December each year in preparation for the sales orders after the temporarily halted production during Chinese New Year in the following year. This results in a higher inventory level in general as at 31 December each year. Our inventories increased from approximately RMB69.8 million as at 31 December 2016 to approximately RMB78.0 million as at 31 December 2017, primarily due to (i) the 2018 Chinese New Year was in February resulting in a higher finished goods inventory level; and (ii) our earlier production of finished goods in late 2017 as the management forecasted an upward trend of raw material costs in 2018 from market research and analysis. Such increase was offset by the decrease in raw materials which were used up for the finished goods production.

Our inventories decreased from approximately RMB78.0 million as at 31 December 2017 to approximately RMB73.5 million as at 31 October 2018, which was mainly due to the decrease of finished goods resulting from the sales recorded for the ten months ended 31 October 2018, and offset by the increase in raw materials purchased by our Group.

As at the Latest Practicable Date, approximately RMB67.8 million, representing approximately 92.3% of our inventories as of 31 October 2018 were subsequently used.

The following table sets out the average inventory turnover days for the Track Record Period:

	Year ended 31 December		Ten months ended 31 October
	2016	2017	2018
Average inventory turnover days *(Note)*	105	140	104

Note: Average inventory turnover days are based on the average balance of inventories divided by costs of sales for the relevant year/period and multiplied by the number of days in the relevant year/ period (i.e. 366 days for the year ended 31 December 2016, 365 days for the year ended 31 December 2017 and 304 days for the ten months ended 31 October 2018). Average balance is calculated as the average of the beginning balance and ending balance of a given year/period.

Our inventory turnover days increased from approximately 105 days for the year ended 31 December 2016 to approximately 140 days for the year ended 31 December 2017. The increase was mainly due to the increase in finished goods as at 31 December 2017. Our inventory turnover days decreased to approximately 104 days for the ten months ended 31 October 2018. Such decrease was primary due to the decrease in finished goods as at 31 October 2018 resulting from the sales recorded for the ten months ended 31 October 2018.

Trade, bills and other receivables

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

	As at 31 December		As at 31 October
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	45,599	15,027	24,196
Less: doubtful debt allowance of trade receivables	(3,370)	(922)	(1,463)
Trade receivables, net	42,229	14,105	22,733
Bills receivables	–	220	–
Other receivables			
Prepayments	9,151	7,910	5,978
Value added tax ("**VAT**") recoverable	3,957	3,555	2,848
Deferred issue costs	–	–	3,909
Amounts due from related companies	–	325	–
Others	1,163	460	270
	14,271	12,250	13,005
Less: doubtful debt allowance of other receivables	(773)	(1)	(3)
Other receivables, net	13,498	12,250	13,002
Total	55,727	26,574	35,735

Trade receivables

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

The decrease in gross amount of trade receivables from approximately RMB45.6 million as at 31 December 2016 to approximately RMB15.0 million as at 31 December 2017 was mainly due to the increase in sales to a customer in late 2016, an increased amount of trade receivable settled by our customers around the year-end date of 31 December 2017 as a result of our management's effort to chase for the outstanding trade receivables.

The increase in gross amount of trade receivables from approximately RMB15.0 million as at 31 December 2017 to approximately RMB24.2 million as at 31 October 2018 was mainly due to increase in our higher total sales of approximately RMB11.9 million from approximately RMB87.1 million for the last three months of the period ended 31 October 2018 to approximately RMB75.2 million for that of the financial year 2017, which resulted in a more trade receivables aged within 3 months as at 31 October 2018.

As at the Latest Practicable Date, approximately RMB22.0 million, representing approximately 91.0% of our trade receivables as at 31 October 2018 were subsequently settled.

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

	As at 31 December		As at 31 October
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	32,717	11,510	19,063
Over 3 months but within 6 months	5,331	904	3,410
Over 6 months but within 1 year	3,015	1,113	249
Over 1 year but within 2 years	740	578	11
Over 2 years	426	–	–
Total	42,229	14,105	22,733

The following table sets out an ageing analysis of our trade receivables which are past due but not impaired as at the dates indicated:

	As at 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
Within 3 months	15,752	4,619
Over 3 months but within 6 months	5,275	943
Over 6 months but within 1 year	1,883	39
Over 1 year but within 2 years	718	578
Over 2 years	426	–
Total	24,054	6,179

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good historical payment record with our Group. The management assessed at each of the reporting date whether there is objective evidence that trade receivables are impaired.

The following tables set out (i) the movement of allowance on trade receivables for the two years ended 31 December 2017 under IAS 39; and (ii) movement of allowance on trade receivables for the ten months ended 31 October 2018 under IFRS 9:

	As at 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
Balances at beginning of the year	1,364	3,370
Allowance for doubtful debts	2,034	140
Reversal of allowance of doubtful debts	(28)	(1,360)
Bad debts written off	–	(1,228)
Balance at end of the year	3,370	922

	Not credit impaired	Credit impaired	As at 31 October 2018
	RMB'000	*RMB'000*	*RMB'000*
Balance at 31 December 2017			922
Effect arising on adoption of IFRS 9			95
Adjusted balance at 1 January 2018			1,017
Transfer to credit impaired	(315)	315	–
ECL	573	–	573
Reversal of ECL *(Note)*	(11)	(116)	(127)
Balance at 31 October 2018			1,463

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

During the Track Record Period, our management assess impairments according to their ageing and historical default rates. Our Group would provide allowance for individual receivable that were considered to be impaired based on management assessment performed at the end of each reporting period. Despite a higher allowance for doubtful debts of approximately RMB3.4 million as at 31 December 2016, our allowance for doubtful debts remained relatively low at approximately RMB0.9 million as at 31 December 2017. The higher allowance as at 31 December 2016 was mainly due to certain customers with a total doubtful debts of approximately RMB3.4 million, of which approximately RMB1.2 million and RMB1.4 million was fully written off and fully recovered, respectively during the year ended 31 December 2017.

The following table sets out the trade receivable turnover days as at the dates indicated:

	Year ended 31 December		For the ten months ended 31 October
	2016	2017	2018
Average trade receivables turnover days *(Note)*	44	47	26

Note: Average trade receivables turnover days are based on the average balance of trade receivable divided by total turnover for the relevant year/period and multiplied by the number of days in the relevant year/period (i.e. 366 days for the year ended 31 December 2016, 365 days for the year ended 31 December 2017 and 304 days for the ten months ended 31 October 2018). Average balance is calculated as the average of the beginning balance and ending balance of a given year/period.

Our average trade receivable turnover days was 44 days for the year ended 31 December 2016 and 47 days for the year ended 31 December 2017, of which those were in line with the general credit period allowed ranging from 30 to 90 days. The decrease of average trade receivable turnover days to 26 days for the ten months ended 31 October 2018 was mainly due to our continuous monitor and control on the settlement status of our trade receivables.

Other receivables

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

Other receivables decreased by approximately RMB1.8 million, from approximately RMB14.3 million as at 31 December 2016 to approximately RMB12.5 million as at 31 December 2017, as a result of a decrease in prepayment to a subcontractor, which is an Independent Third Party, after the completion of our provision of printing and dyeing service of approximately RMB2.6 million.

Our other receivables increased by approximately RMB0.5 million or approximately 4.3% from approximately RMB12.5 million as at 31 December 2017 to approximately RMB13.0 million as at 31 October 2018 and was mainly attributable to the combined effect of (i) a decrease of prepayment of approximately RMB1.9 million; (ii) a decrease of the VAT recoverable of approximately RMB0.7 million as a result of the settlement during the ten months ended 31 October 2018; (iii) the increase of deferred issue costs of approximately RMB3.9 million for the qualifying portion of the Listing expenses incurred for the ten months ended 31 October 2018 which will be debited to equity upon Listing.

The following table set out the movement in the allowance for doubtful debts on other receivables as at the dates indicated:

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Balances at beginning of the year/period	1,036	773	1
Effect arising on adoption of IFRS 9 *(Note)*	–	–	2
Reversal of allowance of doubtful debts	(263)	(772)	–
Balance at end of the year/period	773	1	3

Note: Our Group has adopted IFRS 9 "Financial Instruments" since 1 January 2018. For details, please refer to Note 4, 25 and 27 to the Accountants' Report in Appendix I to this prospectus. For the two years ended 31 December 2016 and 2017, our financial assets including trade and other receivables, were measured under IAS 39 Financial Instruments: Recognition and Measurement.

The management assessed at each of the reporting date whether there is objective evidence that other receivables are impaired. Our Group would provide for individual receivables that were considered to be impaired based on management assessment performed at the end of each reporting period.

Restricted bank balances

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

Trade and other payables

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

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
Due to third parties	44,366	23,603	23,472
Due to related parties	–	197	90
	44,366	23,800	23,562
Other payables			
Other tax payables	424	1,366	887
Payroll payables	1,591	3,827	1,475
Interest payables	432	521	316
Deferred income	–	–	6,000
Payable for acquire property, plant and equipment	1,153	5,515	5,245
Due to related parties	–	–	553
Accrued issue cost and listing expenses	–	–	3,948
Others *(Note)*	2,371	378	423
	5,971	11,607	18,847
Total	50,337	35,407	42,409

Note: Others mainly include purchases of fixed assets.

Trade payables

Our trade payables primarily consist of trade payables to our suppliers of raw materials. Our suppliers generally grant us a credit period with a maximum of 90 days upon receipts of the raw materials and the relevant VAT invoices over the Track Record Period.

Our trade payables decreased from approximately RMB44.4 million as at 31 December 2016 to approximately RMB23.8 million as at 31 December 2017, representing a decrease of approximately 46.4%. Such decrease was mainly due to more settlement of trade payables were taken place around the year-end date of 2017 compared to that of 2016. Our trade payables was remained stable as at 31 December 2017 and 31 October 2018.

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		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	13,685	11,891	13,814
Over 3 months but within 6 months	8,000	4,773	5,980
Over 6 months but within 1 year	19,235	2,424	1,870
Over 1 year but within 2 years	3,245	4,256	1,230
Over 2 years	201	456	578
	44,366	23,800	23,472

No general credit terms are granted for the trade payable due to related parties. The following table sets out an ageing analysis of trade payable due to related parties presented based on the receipt of goods by our Group as at the dates indicated:

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	–	197	90

As at the Latest Practicable Date, approximately 89.7% of our trade payables as at 31 October 2018 has been subsequently settled.

The following table sets out the trade and bills payable turnover days for the Track Record Period:

	Year ended 31 December		Ten months ended 31 October
	2016	2017	2018
Average trade payable turnover days *(Note)*	57	65	33

Note: Average trade payable turnover days are based on the average balance of trade payables divided by cost of sales and services for the relevant year/period and multiplied by the number of days in the relevant year/period (i.e. 366 days for the year ended 31 December 2016, 365 days for the year ended 31 December 2017 and 304 days for the ten months ended 31 October 2018). Average balance is calculated as the average of the beginning balance and ending balance of a given year/period.

For the year ended 31 December 2017, although the trade payable turnover days increased to approximately 65 days from approximately 57 days in 2016, it is still within the credit period granted by our suppliers. The faster turnover days of approximately 33 days as at 31 October 2018 was mainly due to a tighten control and faster settlement enforced by our Group.

Other payables

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

Our other payables increased from approximately RMB6.0 million as at 31 December 2016 to approximately RMB11.6 million as at 31 December 2017 mainly due to the increase of staff payroll payable of approximately RMB2.2 million as a result of increase in total headcount of 113 staff.

Our other payables further increased to approximately RMB18.8 million as at 31 October 2018 mainly due to (i) the increase in deferred income of approximately RMB6.0 million which represented a conditional government grant received in relation to the Listing and will be credited to profit or loss once our Company is successfully listed; and (ii) the increase in accrued issue cost and listing expenses of approximately RMB3.9 million.

The following table sets out the amounts due to related parties as at 31 October 2018.

	As at 31 October 2018
	RMB'000
Spring Sea	433
Summer Land	120
	553

All balances due to related parties as at 31 October 2018 were unsecured, interest free and repayable on demand.

Bills payables

Bills payables represented an arrangement with a bank for the payment to our suppliers. As at 31 December 2016, our Group recorded bills payables of approximately RMB0.2 million. There were no bills payable as at 31 December 2017 and 31 October 2018.

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		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Amounts received in advance of:			
(i) sales of fabrics	2,161	2,112	6,431
(ii) printing and dyeing services	158	365	3,731
	2,319	2,477	10,162

As at 31 December 2016 and 2017, and 31 October 2018, all of our contract liabilities were due within 12 months. While the contract liabilities were stable as at 31 December 2016 and 2017, the significant increase in contract liabilities from approximately RMB2.5 million as at 31 December 2017 to approximately RMB10.2 million as at 31 October 2018 was mainly due to our increased receipt of sales deposits from customers who placed sales order ahead expecting an upward trend of raw materials prices.

The following table shows how much of the revenue recognised in the current reporting period relates to bought forward contract liabilities. There was no revenue recognised in the current reporting period that related to performance obligations that were satisfied in a prior year.

	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the period				
Sales of fabrics	14,826	2,035	2,035	1,983
Printing and dyeing services	34	135	135	312
Total	14,860	2,170	2,170	2,295

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in Note 41 to the Accountants' Report set out in Appendix I to this prospectus, our Directors confirm that for (i) the transactions between our Group and Zhejiang Jinbakai Plant Products Changxing Base Co., Ltd.* (浙江金巴開植物製品長興基地有限公司) in relation to the purchase of steam and electricity for production; (ii) the provision of pledge of property, plant and equipment by our Group to secure short-term bank borrowings granted to Mr. Dai, and (iii) the provision of personal guarantees by Mr. Dai and Ms. Song and the provision of corporate guarantees by Zhejiang Senlaite to banks in respect of our Group's bank borrowings were conducted on arm's length basis and based on normal commercial terms and were fair and reasonable and in the interest of our Company and our Shareholders as a whole. As such, our Directors are of the view that these related party transactions did not distort our financial results during the Track Record Period or cause our Track Record Period results to be unreflective of our future performance. Save for the transactions between our Group and Zhejiang Senlaite mentioned in the section headed "Connected Transactions – Exempt continuing connected transactions" in this prospectus, none of the related party transactions set forth in Note 41 to the Accountants' Report set out in Appendix I to this prospectus will continue after the Listing.

ACCUMULATED LOSSES

Our Group recorded accumulated losses attributable to owners of our Company as at 1 January 2016, 31 December 2016 and 31 December 2017 and retained profits attributable to owners of our Company as at 31 October 2018 in our Company consolidated statements of changes in equity:

	As at			
	1 January 2016	**31 December 2016**	**31 December 2017**	**31 October 2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Accumulated losses) Retained profits attributable to owners of our Company	(31,867)	(18,843)	(25,625)	11,400

The accumulated losses of approximately RMB31.9 million as at 1 January 2016 were mainly caused by the combined effect of the following factors:

(i) the accumulated share of losses of an associate, Changxing Hengli Financing, amounting to approximately RMB20.3 million as at 1 January 2016. Prior to the Reorganisation, Huzhou Narnia held approximately 23.34% equity interest in Changxing Hengli Financing. Such losses were mainly provision made for its loan receivables. The entire interest in Changxing Hengli Financing was sold to Changxing Transport Investment Group Co., Ltd.* (長興交通投資集團有限公司), an Independent Third Party, in March 2018. Accordingly, no further profit or loss resulting from Changxing Hengli Financing will be incurred going forward. For further details of the disposal of Changxing Hengli Financing, please refer to the section headed "History, Development and Reorganisation – Company excluded from our Group during the Reorganisation" in this prospectus; and

(ii) the declaration and payment of dividends in the amount of RMB25.0 million for the year ended 31 December 2015, which significantly reduced the retained profits of our Group prior to the Track Record Period.

We recorded a decrease in our accumulated losses attribute to owner of our Company to approximately RMB18.8 million as at 31 December 2016, mainly due to the profitable operations of our Group in the financial year. As at 31 December 2017, we recorded accumulated losses attribute to owner of our Company of approximately RMB25.6 million, mainly due to the declaration and payment of dividends attributable to owners of our Company approximately RMB20.2 million in 2017 which offset the profit and total comprehensive income for the year. As at 31 October 2018, we recorded retained profits of approximately RMB11.4 million, mainly due to the profitable operations of our Group during the relevant period.

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 Track Record Period, we have funded our liquidity and working capital requirements through a combination of shareholders' equity, cash generated from operations, bank borrowings. Going forward, we expect to fund our working capital, capital expenditures, and other liquidity requirements with a combination of sources, including but not limited to cash generated from our operations, banking facilities, net proceeds from the Share Offer as well as other external equity and debt financing.

As at 31 December 2016 and 2017 and 31 October 2018, our Group had cash and cash equivalents amounting to approximately RMB9.4 million, RMB5.1 million and RMB3.2 million, respectively.

Cash Flow

The following table sets forth certain information regarding our consolidated cash flows for the Track Record Period:

	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net cash (used in)/generated from operating activities	(7,491)	57,834	38,908	50,108
Net cash generated from/(used in) investing activities	13,393	(20,370)	(17,900)	17,346
Net cash generated from/(used in) financing activities	369	(41,453)	(25,431)	(69,011)
Net increase/(decrease) in cash and cash equivalents	6,271	(3,989)	(4,423)	(1,557)
Effect of foreign exchange rate change	131	(388)	(456)	(342)
Cash and cash equivalents at beginning of financial year/period	3,037	9,439	9,439	5,062
Cash and cash equivalents at end of financial year/period	9,439	5,062	4,560	3,163

Net cash (used in)/generated from operating activities

For the year ended 31 December 2016, our net cash used in operating activities amounted to approximately RMB7.5 million, which primarily reflected our profit before tax of approximately RMB10.9 million, as positively adjusted by (i) the decrease in trade, bills and other receivables of approximately RMB8.6 million; and (ii) the increase in trade and other payables of approximately RMB24.6 million; and (iii) adding back the non-cash depreciation of property, plant and equipment and investment properties of approximately RMB3.5 million, finance cost of approximately RMB8.3 million, allowance on financial assets recognised of approximately RMB1.7 million and share of results of an associate of approximately RMB1.8 million, and offset by (i) the increase in inventories of approximately RMB14.2 million which was due to the increase of raw materials around the year end; (ii) payment of bills payables of approximately RMB37.0 million; (iii) the decrease in contract liabilities of approximately RMB13.3 million; and (iv) the income tax paid of approximately RMB1.3 million.

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

The net cash inflows from operating activities for the ten months ended 31 October 2018 of approximately RMB50.1 million primarily reflected our profit before tax of approximately RMB45.9 million, as positively adjusted by (i) the decrease in inventories of approximately RMB8.1 million; (ii) the increase of contract liabilities of approximately RMB7.7 million as the customers had placed more deposits ahead for the sales orders expecting an increasing trend of raw material costs; (iii) adding back the non-cash depreciation of property, plant and equipment and investment properties of approximately RMB6.6 million; (iv) finance cost of approximately RMB6.2 million; (v) loss on disposal of property, plant and equipment of approximately RMB1.3 million; and (vi) the increase of trade and other payables for approximately RMB6.3 million. Such effect was partially offset by (i) dividends received from the financial asset at FVTPL of approximately RMB1.1 million, (ii) gain on disposal of an associate of approximately RMB23.0 million; (iii) the income tax paid of approximately RMB2.2 million; and (iv) the increase in trade, bills and other receivables for approximately RMB7.2 million.

Net cash (used in)/generated from investing activities

For the year ended 31 December 2016, our Group recorded a net cash inflow from investing activities of approximately RMB13.4 million, which was mainly attributable to the cash received from withdrawal of pledged bank deposits of approximately RMB22.3 million offset by cash used for purchase of property, plant and equipment in the amount of approximately RMB10.7 million.

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

For the ten months ended 31 October 2018, our net cash generated from investing activities amounted to approximately RMB17.3 million, which was mainly attributable to proceeds from disposal of an associate of approximately RMB35.0 million offset by cash used for purchases of property, plant and equipment of approximately RMB18.3 million.

Net cash (used in)/generated from financing activities

For the year ended 31 December 2016, our Group recorded net cash inflow from financing activities of approximately RMB0.4 million, which was mainly attributable to the proceeds received from bank borrowings and finance lease borrowings of approximately RMB166.0 million and RMB5.0 million, respectively, and offset by (i) the repayment of bank borrowings and finance lease borrowings of approximately RMB157.3 million and RMB6.3 million, respectively, and (ii) the payment of interest of approximately RMB7.3 million for the borrowings.

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

For the ten months ended 31 October 2018, our net cash used in financing activities of approximately RMB69.0 million, which was mainly attributable to (i) the proceeds received from bank borrowings of approximately RMB187.5 million, and offset by the repayment of bank borrowings approximately RMB210.5 million, (ii) the deferred issue cost paid of approximately RMB2.9 million in relation to our Group's Listing, (iii) the payment of interest of approximately RMB6.2 million for the borrowings, and (iv) the capital reduction of approximately RMB35.0 million of Huzhou Narnia in March 2018.

ANALYSIS OF KEY FINANCIAL RATIOS

The following table sets out a summary of the key financial ratios of our Group during the Track Record Period:

	As at/Year ended 31 December		As at/ Ten months ended 31 October
	2016	2017	2018
Profitability ratios			
Gross margin (%)[(1)]	14.4	19.3	19.6
Net profit margin (%)[(2)]	3.4	5.9	12.7
Rates of return			
Return on total assets (%)[(3)]	3.0	5.4	13.4
Return on equity (%)[(4)]	11.5	21.3	37.4
Liquidity			
Current ratio (times)[(5)]	0.8	0.7	0.7
Quick ratio (times)[(6)]	0.4	0.2	0.3
Capital adequacy			
Interest coverage ratio (times)[(7)]	2.3	3.5	8.4
Gearing ratio (%)[(8)]	140.9	161.6	119.5

Notes:

1. Calculated using gross profit for the year divided by total revenue for the same year/period and multiplied by 100%.

2. Calculated using profit attributable to owners of our Company for the year/period divided by total revenue for the same year/period and multiplied by 100%.

3. Calculated using profit attributable to owners of our Company for the year/period divided by the total assets at the end of the year/period and multiplied by 100%.

4. Calculated using profit attributable to owners of our Company for the year/period divided by the equity attributable to owners of our Company at the end of the year/period and multiplied by 100%.

5. Calculated using total current assets divided by total current liabilities at the end of the year/period.

6. Calculated using total current assets less inventories divided by total current liabilities at the end of the year/period.

7. Calculated using the sum of profit before income tax and interest expense on bank and finance lease borrowings for the year divided by interest expense on bank and finance lease borrowings for the year/period.

8. Calculated using total debt divided by total equity at the end of the year/period and multiplied by 100%. Total debt is defined to include bank and finance lease borrowings, and other payables due to related parties which were in non-trade nature.

Details of gross profit margin and net profit margin of our Group are set out in the paragraph headed "Description of selected items in consolidated statements of profit or loss and other comprehensive income – Gross profit and gross profit margin" in this section.

Return on total assets

Our return on total assets increased from approximately 3.0% for the year ended 31 December 2016 to approximately 5.4% for the year ended 31 December 2017, mainly due to (i) an increase in profit attributable to owners of our Company as a result of improving business performance, and (ii) a decrease in total assets due to the payment of cash dividend of approximately RMB25.7 million by Huzhou Narnia for the year ended 31 December 2017. Return on total assets further increased to approximately 13.4% for the ten months ended 31 October 2018 due to (i) the continuing improvement in our business performance resulting in an increase in profit attributable to owners of our Company, and (ii) a decrease in total assets due to the cash used in repayment of bank borrowings, and disposal of interests in associates.

Return on equity

Similar to the return on total assets, our return on equity increased from approximately 11.5% for the year ended 31 December 2016 to approximately 21.3% for the year ended 31 December 2017, mainly due to a decrease in equity attributable to owners of our Company as a result of the payment of dividend by Huzhou Narnia for the year ended 31 December 2017. Return on equity further increased to approximately 37.4% mainly due to (i) the improved profit attributable to the owners of our Company resulting from strong sales growth and gain on disposal of an associate, and (ii) the significant decrease in equity attributable to owners of our Company as a result of the Reorganisation and capital reduction of approximately RMB27.2 million of Huzhou Narnia.

Current ratio

Our current ratio remained stable at approximately 0.8, 0.7 and 0.7 times as at 31 December 2016 and 2017 and 31 October 2018.

Quick ratio

Our quick ratio decreased from approximately 0.4 times as at 31 December 2016 to approximately 0.2 times mainly due to a decrease in trade and other receivables as at 31 December 2017 as mentioned above. The quick ratio remained stable at approximately 0.3 times as at 31 October 2018.

Interest coverage ratio

Our interest coverage ratio increased from approximately 2.3 times for the year ended 31 December 2016 to approximately 3.5 times for the year ended 31 December 2017 mainly due to an increase in profit before tax as a result of improving business performance for the year ended 31 December 2017. The interest coverage ratio further increased to 8.4 times mainly attributable to the improving profit before tax resulting from our strong sales growth and gain on disposal of an associate, and a stable interest expense for the ten months ended 31 October 2018.

Gearing ratio

Our gearing ratio increased from approximately 140.9% as at 31 December 2016 to approximately 161.6% as at 31 December 2017 mainly attributable to an increase in the borrowings of approximately RMB8.9 million. Our gearing ratio decreased to approximately 119.5% as at 31 October 2018 mainly due to the combined result of (i) decrease in total debt of approximately RMB24.9 million; and (ii) the decrease in total equity as mentioned above.

INDEBTEDNESS

Bank borrowings

As at 31 December 2016 and 2017 and 31 December 2018, being the latest practicable date for determining our indebtedness, we had outstanding bank borrowings of approximately RMB124.4 million, RMB133.3 million and RMB113.8 million respectively. The proceeds from bank borrowings were mainly used for daily operation of our Group. The following table sets out a summary of the bank borrowing of our Group as at the dates indicated:

	As at 31 December		As at 31 December
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings			
Secured and guaranteed *(Note (a))*	76,396	81,832	45,146
Secured and unguaranteed *(Note (b))*	–	–	50,000
Unsecured and guaranteed *(Note (c))*	48,000	51,495	18,605
	124,396	133,327	113,751
Carrying amount repayable			
Current portion	124,396	126,720	91,959
Non-current portion	–	6,607	21,792
	124,396	133,327	113,751

Note (a): The bank borrowings were secured by (i) pledge of properties, plant and equipment held by our Group; (ii) charges over certain prepaid lease payments of our Group and/or Zhejiang Senlaite, a related party of our Group; and (iii) unlisted equity investment in Changxing Rural Commercial Bank held by our Group. The bank borrowings were also guaranteed by Mr. Dai, Ms. Song and other independent personnel, Zhejiang Senlaite and/or Independent Third Party companies. All the respective secured assets and guarantees from third-parties are received at nil consideration.

Note (b): The bank borrowings were secured by charges over certain prepaid lease payments and property, plant and equipment of our Group and/or Zhejiang Senlaite. All the respective secured assets from third-party are received at nil consideration.

Note (c): The bank borrowings were guaranteed by (i) the personal guarantee including Mr. Dai, Ms. Song and other independent personnel; and/or (ii) the corporate guarantee from third-party companies. All the respective guarantees from third-parties are received at nil consideration.

As represented by our Directors, the abovementioned guarantees received from third-parties and related parties will be released before or upon the Listing.

During the Track Record Period and up to the latest practicable date for determining our indebtedness, we did not breach any covenant in relation to our bank borrowings and facilities and we did not record any delay or default in our bank borrowings. The ranges of effective interest rates on the borrowings as at 31 December 2016 and 2017 and 31 December 2018 range from approximately 4.45% to 7.20%, 4.35% to 7.20% and 4.35% to 7.20% per annum, respectively.

Finance lease obligations

The following table sets out a breakdown of our financial lease obligations as at the dates indicated:

	As at 31 December		As at 31 December
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Finance lease obligations			
Current portion	2,343	2,616	–
Non-current portion	2,616	–	–
	4,959	2,616	–

As at 31 December 2016 and 2017 and 31 December 2018, being the latest practicable date for determining our indebtedness, we had outstanding finance lease obligations of approximately RMB5.0 million, RMB2.6 million and nil respectively. Finance lease obligations represents the collateralised borrowings under financing arrangements entered into by our Group with a third-party leasing company, in the form of a sale and leaseback transaction, for the purchase of automatic dye ingredient system and other equipment during the Track Record Period.

Amounts due to related parties – non-trade nature

As at 31 December 2018, being the latest practicable date for determining our indebtedness, we had outstanding amounts due to related parties – non-trade nature of approximately RMB0.6 million which were unsecured and unguaranteed, and has been capitalised on 31 January 2019.

Contingent liabilities

As at 31 October 2018, being the latest practicable date for determining our indebtedness, save as disclosed in this section, we did not have any other borrowings, bank overdrafts, outstanding loan capital and liabilities under acceptances or other similar indebtedness, debt securities, term loans, debentures, mortgages, charges or loans, or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

Material indebtedness change

Save for the above, our Directors confirmed that, up to the date of this prospectus, there has been no material change in our Group's indebtedness since 31 October 2018, being the latest practicable date for the preparation of the indebtedness statement in this prospectus.

CAPITAL EXPENDITURE

Our Group's capital expenditure for the Track Record Period mainly represented leasehold improvements, additions to equipment and machinery, furniture and fixtures, motor vehicles and construction in progress/assets under installation in relation to our factory expansion. Our Group's capital expenditures for the two years ended 31 December 2017 and the ten months ended 31 October 2018 were approximately RMB6.8 million, RMB29.6 million and RMB14.5 million, respectively. Save for the factory expansion, we do not have any other material planned capital expenditure as at the Latest Practicable Date.

CAPITAL COMMITMENTS

Our Group had the following capital commitments as at the dates indicated:

	As at 31 December		As at 31 October
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Property and equipment	138	1,169	–

Our Group's capital commitments as at 31 December 2016 and 2017 principally represented our commitment in relation to the acquisition of property, plant and equipment for our technical

upgrade and expansion of production facilities, and replacement of obsolete production equipment. Our Group do not have any capital commitments as at 31 October 2018.

OPERATING LEASE COMMITMENTS

At the end of the each reporting period, our Group had commitments for future minimum lease receivables under non-cancellable operating leases in respect of rented premises which fall due as follows:

Our Group as lessee

At the end of the reporting period, our Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	–	360
In the second year to fifth year inclusive	–	–	990
	–	–	1,350

Operating lease payments represent rentals payable by our Group for certain of its equipment. Leases are negotiated with fixed lease term 3 years.

Our Group as lessor

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	120	190
In the second year to fifth year inclusive	–	180	109
	–	300	299

Operating lease receivables represented rentals receivables by our Group for its investment property. Leases are negotiated with fixed lease term ranging from 2 to 3 years.

DISTRIBUTABLE RESERVES

Our Company was not incorporated in the Cayman Islands until 1 September 2017. As at the Latest Practicable Date, our Company has no distributable reserves available for distribution to our Shareholders.

DIVIDENDS

During the year ended 31 December 2017, Huzhou Narnia had declared a final dividend for the financial year ended 31 December 2016 and an interim dividend for the 11 months ended 30 November 2017 with a total of approximately RMB25.7 million to its equity holders prior to the Reorganisation. Other than the above, during the Track Record Period, no dividends have been declared and paid by the companies now comprising our Group to their then respective shareholders.

We have adopted a dividend policy on 29 January 2019 and our Board has absolute discretion as to whether to declare any dividend for any year end and if any, the amount of dividend and the means of payment. Such discretion is subject to any applicable laws and regulations including the Companies Law and our Articles. Subject to the Companies Law and our Articles, our Company may in general meeting declare dividends, but no dividends shall exceed the amount recommended by our Board. Our Board may, subject to our Articles, from time to time pay to our Shareholders such dividends as appear to our Board to be justified by the financial conditions and the profits of our Company. Our Board may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of our Company as it thinks fit. The amount of any dividends to be declared and paid in the future may depend on, among other things, results of operations, earnings, cash flows, financial conditions, capital requirements, etc. and there is no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all. Currently, we do not have any predetermined dividend distribution ratio.

LISTING EXPENSES

Our Directors are of the view that the financial results of our Group for the year ended 31 December 2018 are expected to be adversely affected by the Listing expenses in relation to the Share Offer, the nature of which is non-recurring. The total Listing fees in relation to the Share Offer, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately RMB33.9 million (based on the mid-point of the indicative Offer Price range of HK$0.40 per Offer Share and HK$0.80 per Offer Share). Among the estimated total Listing fees, (i) approximately RMB15.1 million is expected to be accounted for as a deduction from equity upon the Listing; and (ii) approximately RMB18.8 million would be recognised as expenses in our consolidated income statements, of which

approximately RMB11.7 million had been recognised up to 31 October 2018 and the balance of approximately RMB7.1 million is expected to be recognised upon Listing.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2018

Estimated consolidated profit attributable to owners of our Company	not less than RMB39 million
Unaudited pro forma estimated profit per Share for the year ended 31 December 2018[(2)(3)]	no less than RMB4.92 cents

Notes:

(1) The estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2018 has taken into account of our estimated Listing expenses of approximately RMB13 million incurred during the year ended 31 December 2018.

(2) The unaudited pro forma estimated profit per Share for the year ended 31 December 2018 has been prepared in accordance with paragraph 7.31 (1) of the GEM Listing Rules on the basis set out in the notes below for the purpose of illustrating the effect of the Share Offer and the Capitalisation Issue, as if they had taken place on 1 January 2018. The unaudited pro forma estimated profit per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial results following the Share Offer.

(3) The calculation of the unaudited pro forma estimated profit per Share is based on the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2018 and assuming a weighted average of 795,796,000 Shares in issue during the year ended 31 December 2018 and the proposed Share Offer and the Capitalisation Issue had been completed on 1 January 2018 without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase shares as referred to in the paragraphs headed "A. Further information about our Group – 6. Written resolutions of all Shareholders passed on 29 January 2019" or "7. Repurchase of the Share" in Appendix V to this prospectus. The estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2018 has not taken into account any interest income that would have been earned if the proceeds from the Share Offer had been received by the Company on 1 January 2018.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF OUR GROUP ATTRIBUTABLE TO OWNERS OF OUR COMPANY

For details, please refer to Appendix II to this prospectus.

POST BALANCE SHEET EVENTS

Please refer to the section headed "Summary – Recent development" and Note 45 to the Accountants' Report in Appendix I to this prospectus.

NO MATERIAL ADVERSE CHANGE

Save for the listing expenses of approximately RMB7.1 million which will be recognised upon Listing, our Directors do not expect to have any material adverse change in our financial or trading position or prospect since 31 October 2018, being the date of which our latest audited financial information was prepared up to the date of this prospectus and there had been no event since 31 October 2018 which would materially affect the information shown in Appendix I to this prospectus.

DISCLOSURE PURSUANT TO CHAPTER 17 OF THE GEM LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure obligation pursuant to Rules 17.15 to 17.21 of the GEM Listing Rules.

FINANCIAL RISK MANAGEMENT

The major financial risks arising from our Group's normal course of business include currency risk, interest rate risk, credit risk and liquidity risk. For details, please refer to Note 38 to the Accountants' Report in Appendix I to this prospectus.

BUSINESS OBJECTIVES AND STRATEGIES

Our objective is to enhance our market position in the textile industry in the PRC and continue to strengthen our competitive strengths. For details of our business strategies, please refer to the section headed "Business – Business strategies" in this prospectus.

FUTURE PLANS

We estimate that the aggregate net proceeds of the Share Offer (after deducting underwriting fees and estimated Listing expenses payable by us in connection with the Share Offer) based on the Offer Price of HK$0.60 per Offer Share, being the mid-point of the indicative Offer Price range, will be approximately HK$80.3 million (equivalent to approximately RMB69.2 million) assuming that no Offer Size Adjustment Option is exercised. We currently intend to apply such net proceeds in the following manners:

- approximately RMB46.1 million (equivalent to approximately HK$53.5 million), representing approximately 66.6% of the net proceeds from the Share Offer, will be used for the construction of our new weaving factory adjacent to our existing weaving factory at Hongqi Village, Jiapu Town* (夾浦鎮紅旗村) and purchase of machinery, equipment and ancillary facilities, of which

  (i) approximately RMB15.5 million (equivalent to approximately HK$18.0 million), representing approximately 22.4% of the net proceeds from the Share Offer, is intended to be used for the construction of the new weaving factory. Despite the decrease in sales volume of fabrics from approximately 41.3 million metres for the year ended 31 December 2016 to approximately 38.3 million metres for the year ended 31 December 2017, which was mainly attributable to the expansion of our Group's printing and dyeing services and the technical upgrade in 2017 which temporarily affected the printing and dyeing processes of fabrics sold by us, our Directors expected the existing customer base of our Group will continue to drive the growth of our sales of fabrics segment and provide stable demand in our fabric products. During the Track Record Period, approximately 33.0%, 32.4% and 30.6% of the total volume of grey fabrics required in our production were produced by our weaving factory, which amounted to approximately 13.6 million metres, 13.7 million metres and 13.7 million metres. These self-produced grey fabrics are usually quality fabrics with special features or required specifications from customers. With expanded weaving capacity, our Directors expect to reduce reliance on external suppliers and subcontractors which supplied around 70% of grey fabrics to our Group in aggregate each year during the Track Record Period. According to the Frost & Sullivan Report, during the past few years, in response to the tightening environmental regulations by the PRC Government, local provincial authorities in Zhejiang and Jiangsu have issued several local policies and regulations and shut down many textile fabric manufacturing, printing and dying factories which failed to comply with those policies and regulations. It is expected the number of textile fabric manufacturers (including grey fabric manufacturers) in the textile industry will be on a decrease trend in future. The construction of new weaving factory with increased

production capacity will (i) increase our Group's production capacity of grey fabrics; (ii) diminish the chance of any potential disruption to the supply of grey fabrics for our Group's sales of fabrics; (iii) cater for customers' demands for fabrics with special feature and customised products; and (iv) increase research and development capabilities and shorten the product development cycle as our Group has more production capacity to testify their product innovation.

During the Track Record Period, we could save approximately 5.6%, 6.9% and 4.9% of the total cost of procuring grey fabrics of same specifications by self-production when compared to purchase from Independent Third Party suppliers. After commencement of operation of the new weaving factory, our Group would save approximately 30.0% of the weaving subcontracting fees by using the self-produced grey fabrics when compared to using grey fabrics produced by subcontractors. Our Directors believe that the cost of self-produced grey fabrics would also be less than that during the Track Record Period after commencement of operation of the new weaving factory as the new model water-jet looms to be acquired will have higher weaving capacity and efficiency. It will also save the annual rent as our Group will no longer need to rent the property from Zhejiang Senlaite. During the Track Record Period, we rented a property from Zhejiang Senlaite for carrying out part of our weaving process, i.e. texturing. Upon completion of construction of new weaving factory and renovation of existing weaving factory, all machines, equipment and ancillary facilities including four texturing machines will be moved back to our existing weaving factory and our texturing process will be carried out in our Huzhou Production Facilities in future;

(ii) approximately RMB9.5 million (equivalent to approximately HK$11.0 million), representing approximately 13.7% of the net proceeds from the Share Offer, is intended to be used for the renovation of the existing weaving factory. After the renovation of the existing weaving factory and the construction of new weaving factory, we will have more space to store the 146 new water-jet looms to be acquired after the Listing and the four texturing machines to be moved back from the property rented by our Group from Zhejiang Senlaite during the Track Record Period. Our Directors believe that by centralising the weaving process at the two weaving factories which are adjacent to each other, our Group will enjoy an efficient production management and enhance our production capabilities; and

(iii) approximately RMB21.1 million (equivalent to approximately HK$24.5 million), representing approximately 30.5% of the net proceeds from the Share Offer, is intended to be used for the replacement of our 146 existing water-jet looms with new model water-jet looms with higher weaving capability, acquisition of a power transformer and a sewage processing system which will increase our production capacity by 100% compared to our existing water-jet looms. If the Offer Price is fixed at HK$0.60 (being the mid-point of the indicative Offer Price range), the costs of replacing the 146 water-jet looms will be fully financed by

the net proceeds from the Share Offer. If the Offer Price is fixed below the mid-point of the indicative Offer Price range, the costs of replacing the remaining water-jet looms will be financed by internal resources of our Group;

- approximately RMB16.3 million (equivalent to approximately HK$19.0 million), representing approximately 23.6% of the net proceeds from the Share Offer, will be used for the acquisition of new printing and dyeing machinery, equipment and ancillary facilities at our existing printing and dyeing factory at Industrial Park, Jiapu Town* (夾浦鎮工業園區), of which (i) approximately RMB8.4 million (equivalent to approximately HK$9.7 million), representing approximately 12.1% of the net proceeds from the Share Offer, is intended to be used for the acquisition of two new setting machines and two new printing machines; (ii) approximately RMB5.9 million (equivalent to approximately HK$6.8 million), representing approximately 8.5% of the net proceeds from the Share Offer, is intended to be used for the installation of an intelligence control management system to our printing and dyeing factory; and (iii) approximately RMB2.0 million (equivalent to approximately HK$2.3 million), representing approximately 2.9% of the net proceeds from the Share Offer, is intended to be used for the installation of a "zero-emission" polluted water management system; and

- approximately RMB6.8 million (equivalent to approximately HK$7.9 million), representing approximately 9.9% of the net proceeds from the Share Offer, will be used for working capital and general corporate purposes.

The above allocation of the net proceeds will be adjusted on a pro-rata basis in the event that the Share Offer is fixed a higher or lower level compared to the mid-point of the estimated Offer Price range stated in this prospectus.

Our Directors consider that the net proceeds from the Share Offer together with our internal resources will be sufficient to finance the implementation of our business plans set forth in the paragraphs under "Future Plans and Use of Proceeds – Future plans" in this prospectus.

IMPLEMENTATION PLANS

In order to achieve the aforementioned business objectives, we set forth below our implementation plans for each of the six-month periods from the Latest Practicable Date to 31 December 2020. Investors should note that our implementation plans are formulated on the bases and assumptions referred to in the paragraphs under "Bases and assumptions" in this section below.

These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed "Risk Factors" in this prospectus. Therefore, there is no assurance that our Group's business plans will materialise in accordance with the estimated time frame and that our Group's future plans will be accomplished at all.

From the Latest Practicable Date to 30 June 2019

Business strategies	Implementation plans	Proposed investment *(RMB million)*	Sources of funding
Expand our production capacity and upgrade the existing machinery, equipment and ancillary facilities at our Huzhou Production Facilities	***Weaving***		Listing proceeds
	• construction of new weaving factory	4.0	
	• renovation of existing weaving factory	5.0	
	Printing and dyeing		Listing proceeds
	• acquisition of two setting machines and printing machines	8.4	
Continuously dedicate to our research and development projects	***Research and development projects***	–	Our internal resources
	• research and development of chemical fibre high temperature and eco-friendly dyeing process* (化纖織物高溫環保染色工藝)		
	• collaboration with Zhejiang Sci-Tech University (浙江理工大學) to develop fabrics with medical functions		

For the six months ending 31 December 2019

Business strategies	Implementation plans	Investment *(RMB million)*	Sources of funding
Expand our production capacity and upgrade the existing machinery, equipment and ancillary facilities at our Huzhou Production Facilities	***Weaving***		Listing proceeds
	• construction of new weaving factory	8.0	
	• renovation of existing weaving factory	4.5	
	• acquisition of water-jet looms	6.3	
	• acquisition of a power transformer	0.8	

Business strategies	Implementation plans	Investment *(RMB million)*	Sources of funding
Continuously dedicate to our research and development projects	***Research and development projects***	–	Our internal resources
	• research and development of chemical fibre high temperature and eco-friendly dyeing process* (化纖織物高溫環保染色工藝)		
	• collaboration with Zhejiang Sci-Tech University (浙江理工大學) to develop fabrics with medical functions		
Enhance our environmental protection and quality control systems	***Environmental protection infrastructure***		Listing proceeds
	• installation of a sewage processing system at the existing weaving factory	1.0	
	• installation of an intelligence control management system at our printing and dyeing factory	3.0	
	• installation of a "zero-emission" polluted management system	2.0	

For the six months ending 30 June 2020

Business strategies	Implementation plans	Investment *(RMB million)*	Sources of funding
Expand our production capacity and upgrade the existing machinery, equipment and ancillary facilities at our Huzhou Production Facilities	***Weaving***		Listing proceeds
	• construction of new weaving factory	3.5	
	• acquisition of water-jet looms	12.0	
Enhance our environmental protection and quality control systems	***Environmental protection infrastructure***		Listing proceeds
	• installation of a sewage processing system at the newly constructed weaving factory	1.0	
	• installation of an intelligence control management system at our printing and dyeing factory	2.9	

Business strategies	Implementation plans	Investment *(RMB million)*	Sources of funding
Continuously dedicate to our research and development projects	***Research and development projects***	–	Our internal resources
	• research and development of other projects on production techniques and new products		
Enhance our environmental protection and quality control systems	• engagement of third party environmental consultant	–	Our internal resources
	• conduct internal training		
	• recruit research and development staff and quality control staff		

For the six months ending 31 December 2020

Business strategies	Implementation plans	Investment *(RMB million)*	Sources of funding
Continuously dedicate to our research and development projects	***Research and development projects***	–	Our internal resources
	• research and development of other projects on production techniques and new products		
Enhance our environmental protection and quality control systems	• engagement of third party environmental consultant	–	Our internal resources
	• conduct internal training		
	• recruit research and development staff and quality control staff		

In summary, assuming the Offer Size Adjustment Option is not exercised at all, based on the Offer Price of HK$0.60 per Offer Share (being the mid-point of the indicative Offer Price range), the net proceeds of the Share Offer, after deduction of underwriting fees and other expenses payable by our Company in relation to the Share Offer, are estimated to be HK$80.3 million (equivalent to approximately RMB69.2 million). Our Company currently intends to use the net proceeds from the Share Offer as follows:

	From the Latest Practicable Date to 30 June 2019 *(RMB million)*	31 December 2019 *(RMB million)*	30 June 2020 *(RMB million)*	31 December 2020 *(RMB million)*	Total *(RMB million)*	Approximate % of the net proceeds from the Share Offer
Construction of new weaving factory	4.0	8.0	3.5	–	15.5	22.4
Renovation of the existing weaving factory	5.0	4.5	–	–	9.5	13.7
Acquisition of machinery, equipment and ancillary facilities for weaving	–	7.1	12.0	–	19.1	27.6
Acquisition of machinery, equipment and ancillary facilities for printing and dyeing	8.4	–	–	–	8.4	12.1
Enhancement of environmental protection infrastructure	–	6.0	3.9	–	9.9	14.3
General working capital	6.0	0.8	–	–	6.8	9.9
	23.4	26.4	19.4	–	69.2	100.0

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes and to the extent permitted by applicable laws and regulations, if we are unable to effect any part of our future plans as intended, it is the present intention of our Directors that such net proceeds be placed in short-term interest bearing deposit accounts held with banks in the PRC or Hong Kong. In the event that we would require additional financing apart from the net proceeds from the Share Offer for our future plans, the shortfall will be financed by our internal resources and/or bank financing, as appropriate.

If the Offer Size Adjustment Option is exercised in full (assuming the Offer Price of HK$0.49 per Share given that the Offer Size Adjustment Option will only be exercised if the final Offer Price is less than HK$0.50 per Offer Share), the additional net proceeds from the Share Offer are estimated to be HK$13.4 million. We intend to adjust the allocation of the additional net proceeds to the above uses, on pro rata basis.

Bases and Assumptions

Potential investors should note that the attainability of our Group's business objectives and strategies depends on a number of assumptions, in particular:

- there will be no material changes in the existing political, legal, fiscal, social or economic conditions in Hong Kong, the PRC or in any other places in which any member of our Group carries on its business or will carry on its business;

- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;

- there will be no material changes in the bases or rates of taxation in Hong Kong, the PRC or in any other places in which any member of our Group operates or will operate;

- there will be no material changes in legislation or regulations whether in Hong Kong, the PRC or elsewhere materially affecting the business carried on by our Group;

- there will be no significant changes in our Group's business relationship with our major customers;

- there will be no material changes in the funding required for each of the scheduled achievements as outlined under the paragraph headed "Implementation plans" in this section; and

- our Group will not be materially affected by the risk factors as set out in the section headed "Risk Factors" in this prospectus.

REASONS FOR LISTING

Our Directors believe that the Listing enables our Group to enjoy various benefits as summarised below which not only enable our Group to achieve our business objectives, but also facilitate our future development:

(i) *Increase the production capacity of our Huzhou Production Facilities which has reached full utilisation*: During the Track Record Period, the utilisation rate of our weaving factory and our printing and dyeing factory were 95.6%, 94.6% and 98.8%, and 89.7%, 94.9% and 98.1%, respectively. Furthermore, although we have our own weaving factory to produce grey fabrics, we relied on third party suppliers of grey fabrics to meet the demands from our customers during the Track Record Period. For the two years ended 31 December 2017 and the ten months ended 31 October 2018, the total production volume of our weaving factory was approximately 15.4 million, 14.1 million and 12.9 million metres respectively. Meanwhile, our sales volume of fabric products during the same period amounted to approximately 41.3 million, 38.3 million and 40.5 million metres respectively. Despite the high utilisation rate of weaving, only approximately 30.0%, 32.4% and 30.6% of our total volume of grey fabrics used in our production of fabric product were produced from our weaving factory. Our Directors believe that the increase of production capacity of weaving will reduce our reliance on third party suppliers and improve our profit margin in our sale of fabric products. As for printing and dyeing capacity, we underwent technical upgrade in 2017 in which our production capacity was increased by over 50% as compared to that of 2016. However, the utilisation rate of our printing and dyeing

factory remains at the level of over 90% consistently after the technical upgrade. This was mainly due to the increasing demand from our customers for printing and dyeing services. Going forward, we will continue to place emphasis on our provision of printing and dyeing services which has in general a higher profit margin compared to our traditional sale of fabrics. Our Directors believe that an increased production capacity will be critical to our continuous business growth in future;

(ii) *Potential market growth and implementation of strategies*: The net proceeds from the Listing provide our Group with financial resources to implement our business plans which in turn drive the growth of our business. According to the Frost & Sullivan Report, the market size of the textile industry in the PRC will continue to be driven by the continuous domestic demands, technological innovation and support from the PRC Government in future, with an estimated CAGR of approximately 1.9% for the period from 2017 to 2022. Our Directors believe that, through expanding our current production capacity in both weaving and printing and dyeing processes as well as widening our product offerings and improving our production techniques by our continuous efforts in our research and development capabilities, our Group will benefit from capturing such market growth and more business opportunities;

(iii) *Strengthen financial position for capturing potential business opportunities*: our Group normally requires over 30 to 45 days to complete the production process and the capacity to capture more business opportunities may be limited to the available working capital and cash flow. Our Directors believe that our customers will prefer doing business with a listed company to a private company given the former's greater transparency, stringent regulatory supervision and stronger financial stability generally. The Listing will therefore serve to promote our corporate profile and brand awareness. It is expected that customers would tend to prefer their suppliers having a public listing status with good reputation, transparent financial disclosures and general regulatory supervision. Moreover, we believe that the Listing will strengthen our internal control and corporate governance practices, which in turn would increase our customers' and suppliers' confidence on us and attract potential customers. With such status, our Group can be differentiated from other competitors in the industry;

(iv) *Access to the capital market*: As at 31 October 2018, the total current liabilities amounted to approximately RMB152.6 million, our Group's cash balance of approximately RMB3.2 million together with unutilised banking facilities of RMB27.4 million. Financial institutions generally require borrowers to provide assets as securities for loans. As at 31 October 2018, approximately 48.6% of our property, plant and equipment were pledged or used as security for obtaining loans for our Group. Therefore, our Directors consider that we may not be able to implement our expansion plans by solely relying on debt financing as our available assets are unlikely to be sufficient to provide the loan security required for financing our future plans. Our Directors also considered that debt financing is not desirable having considered our historical gearing ratio and the interest expense incurred would impair our financial position. In comparison, the Listing represents a good opportunity for

our Group to tap into the capital market which provides a more cost effective fund-raising platform to assist our actual and practical needs for our future business development plan and further strengthen our competitiveness; and

(v) *Other commercial benefits*: Our Group will benefit from the Listing by (i) the enhanced corporate image, profile and credibility which in turn not only expands our clientele, but also increases our bargaining power in negotiating terms with customers and suppliers; (ii) the enhanced internal control and corporate governance practices resulting in increase in customers' and suppliers' confidence in our Group; (iii) the ability to retain management and technical personnel and to hire suitable talents by offering more competitive salary packages; and (iv) maintaining banking facilities without reliance on personal guarantees from our Directors.

UNDERWRITERS

Public Offer Underwriters

Cinda International Capital Limited
ChaoShang Securities Limited

Placing Underwriters

Cinda International Capital Limited
ChaoShang Securities Limited
Alpha Financial Group Limited
Aristo Securities Limited
Head & Shoulders Securities Limited
I Win Securities Limited
Pacific Foundation Securities Limited
Supreme China Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Public Offer Underwriting Agreements

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms at the Offer Price.

Subject to, among others, (i) the Listing Committee granting of the listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus, and (ii) certain other conditions set out in the Public Offer Underwriting Agreement (including our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) agreeing on the Offer Price and the Placing Underwriting Agreement becoming unconditional and not having been terminated), the Public Offer Underwriters have severally agreed to subscribe for or procure subscribers to subscribe for the Public Offer Shares, subject to the terms and conditions of the Public Offer Underwriting Agreement.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) shall be entitled by notice (orally or in writing) to our Company to terminate the

Public Offer Underwriting Agreement with immediate effect if, at any time prior to the 8:00 a.m. on the Listing Date:

(A) there develops, occurs, exists or comes into force:

(i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdiction(s) relevant to our Company and its subsidiaries or any other similar event which in the reasonable opinion of the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) has or is likely to have a material adverse change, or any development likely to involve a prospective material adverse change in the condition, financial, operational or otherwise, or in the earning, business affairs or business prospects, assets or liability of our Group as a whole, whether or not arising in the ordinary course of business (the "**Material Adverse Effect**") on the business or financial conditions or prospects of our Group or which may be expected to adversely affect the business or financial condition or prospects of our Group in a material respect; or

(ii) any change (whether or not permanent) in national, regional, international, financial, military, industrial or economic conditions or prospects, stock market, fiscal or political conditions, regulatory or market conditions and matters and/or disasters in Hong Kong or any other jurisdiction(s) relevant to our Company and its subsidiaries or any other similar event which in the reasonable opinion of the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) has or is likely to have a Material Adverse Effect on the business or financial conditions or prospects of our Group or which may be expected to adversely affect the business or financial condition or prospects of our Group in a material respect; or

(iii) without prejudice to sub-paragraph (i) of paragraph above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(iv) any event, or series of events, beyond the control of the Public Offer Underwriters (including, without limitation, acts of government, strikes, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God or accident) would or might have a Material Adverse Effect on any member of our Group or its present or prospective shareholders in their capacity as such; or

(v) any change or development occurs involving a prospective change in taxation or in exchange control in Hong Kong or any other jurisdiction(s) to which any member of our Group is subject or the implementation of any exchange control which in the reasonable opinion of the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) would

or might have a Material Adverse Effect on any member of our Group or its present or prospective shareholders in their capacity as such in a material respect; or

(vi) any litigation or claim of material importance to the business, financial or operations of our Group being threatened or instituted against any member of our Group; or

(vii) the imposition of economic sanctions, in whatever form, directly or indirectly, in Hong Kong or any other jurisdiction(s) relevant to our Company and its subsidiaries; or

(viii) any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-governmental regulatory authority, or any court, tribunal or arbitrator, whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign, or a political body or organisation in any relevant jurisdiction commencing any investigation or other actions, or announcing an intention to investigate or take other actions, against any Group companies or Director; or

(ix) order or petition for the winding up of any Group companies or any composition or arrangement made by any Group companies with its creditors or a scheme of arrangement entered into by any Group companies or any resolution for the winding up of any Group companies or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any Group companies or anything analogous thereto occurring in respect of any Group companies; or

(x) any such event, which, individually, or in the aggregate, in the reasonable opinion of the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), (i) has or may have a Material Adverse Effect on the success of the Share Offer, or the level of applications under the Public Offer or the level of interest under the Placing; or (ii) has or will or may have a Material Adverse Effect on the assets, liabilities, business, prospects, trading or financial position of our Group as a whole; or (iii) makes it inadvisable or impracticable to proceed with the Share Offer; or (iv) has or will or may have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or

(xi) any of our executive Directors being charged with an indictable offence or prohibited by operation of laws or otherwise disqualified from taking part in the management of a company; or

(xii) the commencement by any regulatory body or organisation of any action against any executive Director or our Company or an announcement by any regulatory body or organisation that it intends to take any such action.

(B) there has come to the notice of the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters):

(i) any matter or event showing any of the representations and warranties contained in the Public Offer Underwriting Agreement to be materially untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be materially untrue or inaccurate in any respect considered by the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in their reasonable opinion to be material or showing any of the obligations or undertakings expressed to be assumed by or imposed on our Company or the Controlling Shareholders under Public Offer Underwriting Agreement not to have been complied with in any respect considered by the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in their reasonable opinion to be material; or

(ii) any breach on the part of our Company or any of the Controlling Shareholders of any provisions of the Public Offer Underwriting Agreement in any respect which is considered by the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in their reasonable opinion to be material; or

(iii) any statement contained in this prospectus, notices, advertisements, announcements, application proof prospectus, the post hearing information pack in the nature of a near-final draft prospectus of our Company published on the Stock Exchange's website (the "**PHIP**"), the submissions, documents or information provided to the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), the Stock Exchange, the legal adviser to the Joint Bookrunners and the Joint Lead Managers and the Underwriters and any other parties involved in the Share Offer which in the reasonable opinion of the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or

(iv) matters have arisen or have been discovered which would, if this prospectus, notices, advertisements, announcements, application proof prospectus, PHIP were to be issued at that time, constitute, in the reasonable opinion of the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), a material omission of such information; or

(v) there is any material adverse change or prospective material adverse change in the business or in the financial or trading position or prospects of our Group which in the reasonable opinion of the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) is material; or

(vi) the approval of the Stock Exchange of the listing of, and permission to deal in, the Offer Shares under the Share Offer is refused or not granted, other than subject to customary conditions, on or before 8:00 a.m. on the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(vii) any expert, who has given opinion or advice which are contained in this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or advice and references to its name included in the form and context in which it respectively appears prior to the issue of this prospectus; or

(viii) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Share Offer) or the Share Offer; or

(ix) any information, matter or event which in the reasonable opinion of the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters):

(a) is inconsistent in any material respect with any information contained in the Declaration and Undertaking with regard to Directors (Form B) given by any Directors pursuant to the Share Offer; or

(b) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group.

Undertakings pursuant to the GEM Listing Rules and the Public Offer Underwriting Agreement

Undertakings by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, our Company has undertaken to the Stock Exchange that, except pursuant to the Share Offer, the Capitalisation Issue, the Offer Size Adjustment Option and the Share Option Scheme as described and contained in this prospectus, it will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) except for any of the circumstances provided under Rules 17.29(1) to (5) of the GEM Listing Rules.

Our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers (for themselves and on the behalf of the Public Offer Underwriters) that except pursuant to the Share Offer, the Capitalisation Issue, the exercise of Offer Size Adjustment Option and the Share Option Scheme as described and contained in this prospectus, at any time after the date of the Public Offer Underwriting Agreement up to and including the date falling six months after the Listing Date, our Company will not without the prior written consent of the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the GEM Listing Rules:

(i) offer, pledge, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any of its share capital or any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital; or

(iii) offer or agree to enter into, any transaction with the same economic effect described in limb (i) or (ii) above, or agree or contract to, or publicly announce any intention to enter into, any transaction described in limb (i), (ii) or (iii) above whether any of the foregoing transactions described in limb (i) or (ii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise,

and our Company further agrees that, in the event of an issue or disposal of any Shares or any interest therein after the date falling six months from the Listing Date, our Company will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market for the Shares.

Undertakings by the Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of the Controlling Shareholders has undertaken to Our Company and to the Stock Exchange that, save as provided in Rule 13.18 of the GEM Listing Rules and pursuant to the Share Offer, the Offer Size Adjustment Option and the Share Option Scheme as described and contained in this prospectus, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the GEM Listing Rules:

(a) he/she/it will not, at any time in the period commencing on the date by reference to which disclosure of his/her/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, dispose

of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares in respect of which she/he/it is shown by this prospectus to be the beneficial owner;

(b) he/she/it will not, at any time during the period of 12 months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it will then cease to be the Controlling Shareholder.

Pursuant to the Public Offer Underwriting Agreement, each of the Controlling Shareholders has undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) or its affiliates acting on its behalf in connection with the Share Offer that without the prior written consent of the Joint Bookrunners and the Joint Lead Managers:

(a) he/she/it will not (i) in the period commencing on the date of this prospectus and ending on the date which is 12 months from the Listing Date (the "**First Lock-up Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares which it is shown by this prospectus to be the beneficial owner(s) (whether direct or indirect); and (ii) during the period of 12 months commencing on the date on which the First Lock-up Period expires, dispose of, nor enter into any agreement of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be one of the Controlling Shareholders of our Company as defined in the GEM Listing Rules;

(b) at any time after the date of the Public Offer Underwriting Agreement up to and including the date falling 12 months from the Listing Date, he/she/it will not

(i) offer, pledge, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any share capital of our Company or any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital;

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the share capital of our Company; or

(iii) offer or agree to enter into, any transaction with the same economic effect as any transaction described in limb (i) or (ii) above; or agree or contract to, or publicly announce any intention to enter into, any transaction described in limb (i), (ii) or (iii) above, whether any of the foregoing transactions described in limb (i) or (ii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise,

and each of the Controlling Shareholders further agrees that, in the event of an issue or disposal of any Shares or any interest therein after the date falling 12 months from Listing Date, he/she/it will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market for the Shares.

Each of the Controlling Shareholders has further undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) that he/she/it will, at any time within the period commencing on the date of the Public Offer Underwriting Agreement and ending on the date which is 24 months after the Listing Date:

(i) upon any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any share capital or other securities of our Company or any interests therein beneficially owned by him/her/it for a bona fide commercial loan, immediately inform our Company, the Joint Bookrunners and the Joint Lead Managers in writing of such pledge or charge together with the number of Shares or other securities so pledged or charged; and

(ii) upon any indication received by him/her/it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares or other securities of our Company will be disposed of, immediately inform our Company, the Joint Bookrunners and the Joint Lead Managers in writing of such indications.

Our Company has further agreed and undertaken to the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) that, upon receiving such information referred to in limb (ii) above from the Controlling Shareholders, our Company shall, for so long as required by law and the GEM Listing Rules, as soon as practicable, notify the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) and the Stock Exchange in writing and make a public disclosure of such information by way of an announcement in accordance with the GEM Listing Rules.

Placing

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, among others, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Placing Underwriters) on the Price Determination Date on the terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above. Under the Placing Underwriting Agreement, the Placing Underwriters would, subject to certain conditions, agree to procure subscribers for, or failing which to subscribe for itself, the Placing Shares being offered pursuant to the Placing which are not taken up under the Placing.

OFFER SIZE ADJUSTMENT OPTION

Pursuant to the Underwriting Agreement, if the final Offer Price as agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) is less than HK$0.50 per Offer Share, such that the size of the Share Offer is less than HK$100 million, our Company is expected to grant the Offer Size Adjustment Option to the Placing Underwriters, exercisable by the Sole Global Coordinator on behalf of the Placing Underwriters, to cover over allocations under the Placing (if any).

Pursuant to the Offer Size Adjustment Option, our Company may be required to allot and issue, at the final Offer Price, up to an aggregate of 30,000,000 additional new Shares, representing 15% of the Offer Shares initially available under the Share Offer. The Offer Size Adjustment Option can only be exercised by the Sole Global Coordinator at any time before 5:00 p.m. on the business day immediately preceding the date of the announcement of the results of allocations and the basis of allocation of the Public Offer Shares; otherwise it will lapse. The Offer Size Adjustment Option will only be applicable if the size of the Share Offer is less than HK$100 million. The Shares to be issued pursuant to the exercise of the Offer Size Adjustment Option will not be used for price stabilisation purpose and are not subject to the Securities and Futures (Price Stabilizing) Rules of the SFO (Chapter 571W of the Laws of Hong Kong).

If the Offer Size Adjustment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of the enlarged issued share capital of our Company in issue following completion of the Capitalisation Issue, the Share Offer and the exercise of the Offer Size Adjustment Option but without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme. The additional net proceeds that we would receive if the Offer Size Adjustment Option is exercised in full (assuming the Offer Price of HK$0.49 per Share given that the Offer Size Adjustment Option will only be exercised if the final Offer Price is less than HK$0.50 per Offer Share) are estimated to be HK$13.4 million, which would be applied to the respective uses as disclosed in the section headed "Future Plans and Use of Proceeds" in this prospectus on a pro rata basis. Whether or not the Offer Size Adjustment Option has been exercised will be disclosed in the announcement of the results of allocations.

Indemnity

Each of our Company, the executive Directors and the Controlling Shareholders jointly and severally undertakes to the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) to indemnify and hold harmless the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), for themselves and on trust for each of their respective subsidiaries and affiliates and any of their respective representatives, partners, directors, officers, employees, assignees and agents (collectively, the "**Indemnified Parties**" and individually, an "**Indemnified Party**") against, among other things, all losses which they may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by our Company of the terms and conditions of the Public Offer provided that such indemnity shall not be available to an Indemnified Party to the extent that such losses have been solely caused by the gross negligence, wilful default, fraud, bad faith or breach of law on the part of the Indemnified Party.

Total commission and expenses

The Public Offer Underwriters will receive an underwriting commission rate of 9% of the Offer Price of the Public Offer Shares initially offered under the Public Offer (depending on the amount of the aggregate Offer Price), out of which it will pay any sub-underwriting commission. For unsubscribed Public Offer Shares reallocated to the Placing, our Company will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Joint Bookrunners and the Joint Lead Managers.

The aggregate commissions, together with Listing fees, the SFC transaction levy and the Stock Exchange trading fee in respect of the new Shares offered by our Company, legal and other professional fees and printing and other expenses relating to the Share Offer are estimated to amount to approximately RMB33.9 million (assuming an Offer Price of HK$0.60, which is the mid-point of the indicative Offer Price range of HK$0.40 to HK$0.80) in total and are payable by our Company.

Underwriters' interests in our Company

Except as disclosed below and other than its obligations under the Underwriting Agreements, as at the Latest Practicable Date, the Underwriters are not interested directly or indirectly in any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in our Company or any other member of our Group.

Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 6A.07 of the GEM Listing Rules.

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of initially 200,000,000 Offer Shares will be made available under the Share Offer, of which 180,000,000 Placing Shares (subject to reallocation), representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the Placing. The remaining 20,000,000 Public Offer Shares (subject to reallocation), representing 10% of the Offer Shares, will initially be offered to members of the public in Hong Kong under the Public Offer. The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Public Offer Underwriters have agreed to underwrite the Public Offer Shares under the terms of the Public Offer Underwriting Agreement. The Placing Underwriters will underwrite the Placing Shares pursuant to the terms of the Placing Underwriting Agreement. Further details of the underwriting are set out in the section headed "Underwriting" in this prospectus. Investors may apply for Offer Shares under the Public Offer or indicate an interest for Offer Shares under the Placing, but may not do both.

The Placing

Our Company is expected to offer initially 180,000,000 Shares (subject to reallocation) at the Offer Price under the Placing. The number of Placing Shares expected to be initially available for application under the Placing represents 90% of the total number of Offer Shares being initially offered under the Share Offer. The Placing is expected to be fully underwritten by the Placing Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

It is expected that the Placing Underwriters or selling agents nominated by them, on behalf of our Company, will conditionally place the Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the Placing Shares in the Placing may also be allocated the Placing Shares.

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole. Investors to whom Placing Shares are offered will be required to undertake not to apply for Shares under the Public Offer.

Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers are required to take reasonable steps to identify and reject applications under the Public Offer from investors who receive Shares under the Placing,

and to identify and reject indications of interest in the Placing from investors who receive Shares under the Public Offer.

The Share Offer is expected to be subject to the conditions as stated in the paragraph headed "Conditions of the Share Offer" in this section.

The Public Offer

Our Company is initially offering 20,000,000 Public Offer Shares for subscription (subject to reallocation) by members of the public in Hong Kong under the Public Offer, representing 10% of the total number of Offer Shares offered under the Share Offer. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the Offer Price being agreed on or before the Price Determination Date. Applicants for the Public Offer Shares are required on application to pay the maximum Offer Price of HK$0.80 per Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. An applicant for Public Offer Shares under the Public Offer will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Shares under the Placing nor otherwise participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant's application under the Public Offer is liable to be rejected. Multiple applications or suspected multiple applications and any application made for more than 50% of the Shares initially comprised in the Public Offer (i.e. 10,000,000 Public Offer Shares) are liable to be rejected.

For allocation purpose only, the number of the Public Offer Shares will be divided equally into two pools: 10,000,000 Shares in pool A and 10,000,000 Shares in pool B. The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares in the value of HK$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee thereon) or less. The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares in the value of more than HK$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee thereon) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pool is undersubscribed, the surplus Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 50% of the Public Offer Shares initially available under pool A or pool B will be rejected.

Multiple applications or suspected multiple applications and any application made for more than 50% of Shares initially comprised in the Public Offer (i.e. 10,000,000 Public Offer Shares) are liable to be rejected.

Allocation of Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

REALLOCATION OF THE OFFER SHARES BETWEEN PLACING AND PUBLIC OFFER

The allocation of the Offer Shares between the Placing and the Public Offer is subject to reallocation on the following basis:

a. if the Public Offer Shares are undersubscribed, the Joint Bookrunners and the Joint Lead Managers have the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners and the Joint Lead Managers deem appropriate;

b. if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Public Offer, then up to 40,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be increased to 60,000,000 Shares, representing 30% of the number of the Offer Shares initially available for subscription under the Share Offer;

c. if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Public Offer, then up to 60,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be increased to 80,000,000 Shares, representing 40% of the number of the Offer Shares initially available for subscription under the Share Offer; and

d. if the number of Shares validly applied for under the Public Offer represents 100 times or more the number of Shares initially available for subscription under the Public Offer, then up to 80,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be increased to 100,000,000 Shares, representing 50% of the number of the Offer Shares initially available for subscription under the Share Offer.

Where (i) the Placing Shares are undersubscribed and the Public Offer Shares are oversubscribed irrespective of the number of times the number of Offer Shares initially available for subscription under the Public Offer; or (ii) the Placing Shares are fully subscribed or oversubscribed and the number of Offer Shares validly applied for under the Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Public Offer, the Offer Shares to be offered in the Public Offer and Placing may be reallocated as between these offerings at the discretion of the Joint Bookrunners (for themselves and on behalf of the Underwriters), on the following conditions in accordance with Guidance Letter HKEx-GL-91-18:

(1) the total number of the Offer Shares that may be reallocated from the Placing to the Public Offer shall not be more than the number of Offer Shares initially available for subscription under the Public Offer, i.e. 20,000,000 Shares, then the total number of Offer Shares available under the Public Offer will be increased to 40,000,000 Offer Shares, representing 20% of the number of Offer Shares initially available under the Share Offer; and

(2) the Offer Price shall be fixed at HK$0.40 per Offer Share, being the bottom end of the indicative Offer Price range.

In all cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced. If reallocation of Shares from the Placing to the Public Offer is done other than pursuant to the clawback mechanism under Practice Note 6 to the GEM Listing Rules (including the circumstances specified under paragraph (b), (c) or (d) above), the Offer Shares to be offered in the Public Offer and the Placing may be reallocated as between these offerings at the discretion of the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Underwriters), subject to the maximum total number of Offer Shares that may be allocated to the Public Offer, being 40,000,000 Shares, representing twice the number of Offer Shares initially allocated to the Public Offer, in accordance with Guidance Letter HKEx-GL-91-18.

Details of any reallocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement of the Share Offer, which is expected to be published on Monday, 25 February 2019.

OFFER SIZE ADJUSTMENT OPTION

Pursuant to the Underwriting Agreements, if the final Offer Price as agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) is less than HK$0.50 per Offer Share, such that the size of the Share Offer is less than HK$100 million, we shall grant to the Underwriters the Offer Size Adjustment Option, which is exercisable by the Sole Global Coordinator (for itself and on behalf of the Underwriters) in its joint and absolute discretion (i) on or before the business day immediately before the date of the allotment results

announcement; and (ii) within 30 days from the date of this prospectus, whichever is earlier, in writing, to require our Company to allot and issue up to 30,000,000 additional Shares at the Offer Price, representing 15% of the total number of Shares initially available for subscription under the Share Offer. Any such additional Shares may be issued to cover any excess demand in the Share Offer at the absolute discretion of the Sole Global Coordinator.

For the avoidance of doubt, the purpose of the Offer Size Adjustment Option is to provide flexibility for the Sole Global Coordinator (for itself and on behalf of the Underwriters) to meet any excess demand in the Share Offer. The Offer Size Adjustment Option will only be applicable if the size of the Share Offer is less than HK$100 million. The Offer Size Adjustment Option will not be associated with any price stabilisation activity of the Shares in the secondary market after the listing of the Shares on GEM and will not be subject to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong). No purchase of the Shares in the secondary market will be effected to cover any excess demand in the Share Offer which will only be satisfied by the exercise of the Offer Size Adjustment Option in full or in part.

We will disclose in our allotment results announcement whether and to what extent the Offer Size Adjustment Option has been exercised, and will confirm in the announcement that, if the Offer Size Adjustment Option is not exercised by then, the Offer Size Adjustment Option will lapse and cannot be exercised on any future date. The allotment results announcement will be published on our Company's website at **www.narnia.hk** and the Stock Exchange's website at **www.hkexnews.hk**.

In the event that the Offer Size Adjustment Option is exercised in full, 30,000,000 additional Shares will be issued resulting in a total number of 230,000,000 Shares in issue representing approximately 27.71% of our Company's total number of Shares in issue as enlarged immediately following completion of the Share Offer, the Capitalisation Issue and the exercise of the Offer Size Adjustment Option.

If the Offer Size Adjustment Option is exercised in full, the additional net proceeds received from the placing of the additional Shares allotted and issued will be allocated in accordance with the allocations as disclosed in the section headed "Future Plans and Use of Proceeds" in this prospectus, on a pro rata basis.

OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on or around Tuesday, 19 February 2019.

Prospective investors should be aware of that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than the indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK$0.80 per

Offer Share and is expected to be not less than HK$0.40 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, not later than the morning of the last day for lodging applications under the Public Offer.

The Joint Bookrunners may, where they consider appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, and with the consent of our Company, reduce the number of the Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day lodging applications under the Public Offer, cause there to be published on our Company's website at **www.narnia.hk** and the Stock Exchange's website at **www.hkexnews.hk** notices of reduction in the number of the Offer Shares and/or the indicative Offer Price range. Applicants who have submitted their applications for Public Offer Shares before such a notice is made may subsequently withdraw their applications. Upon issue of such a notice, the revised number of the Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised number of the Offer Shares and/or Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published on our Company's website at **www.narnia.hk** and the Stock Exchange's website at **www.hkexnews.hk** of a reduction in the number of the Offer Shares and/or the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse.

ANNOUNCEMENT OF THE OFFER PRICE AND BASIS OF ALLOCATIONS

Announcement of the final Offer Price, the level of indication of interest in the Placing, the results of applications and the level and the basis of allocation of the Public Offer Shares is expected to be published on our Company's website at **www.narnia.hk** and the Stock Exchange's website at **www.hkexnews.hk**.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$0.80 per Offer Share and is expected to be not less than HK$0.40 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum Offer Price of HK$0.80 per Offer Share plus brokerage of 1%, SFC transaction

levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK$4,040.31 per board lot of 5,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK$0.80 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest. Further details are set out in the section headed "How to Apply for the Public Offer Shares" in this prospectus.

CONDITIONS OF THE SHARE OFFER

The Share Offer will be conditional upon, among others:

(a) the execution of the Placing Underwriting Agreement;

(b) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus;

(c) the Price Determination Agreement between our Company, the Joint Bookrunners being entered into on or before the Price Determination Date; and

(d) the obligations of the Joint Bookrunners, the Joint Lead Managers and the Underwriters under the Underwriting Agreements becoming and remaining unconditional, and such obligations not having been terminated in accordance with the terms of the Underwriting Agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If any of the above conditions has not been fulfilled or (where applicable) been waived by the Joint Bookrunners, the Joint Lead Managers (for themselves and on behalf of the Underwriters) and the Underwriters on or before the day which is the 30 days after the date of this prospectus, the Share Offer shall lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Share Offer will be published on our Company's website at **www.narnia.hk** and the Stock Exchange's website at **www.hkexnews.hk** on the next business day after such lapse. The terms on which the application money will be returned to the applicants are set out in the section headed "How to Apply for the Public Offer Shares – 14. Despatch/Collection of share certificates and refund monies" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other

bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on 26 February 2019, it is expected that dealings in the Shares on GEM will commence at 9:00 a.m. on 26 February 2019. The Shares will be traded in board lots of 5,000 Shares each. The stock code of the Shares is 8607.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements as such arrangements will affect their rights and interests.

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

(a) use a **WHITE** Application Form or **YELLOW** Application Form; or

(b) apply online via the **HK eIPO White Form** service at **www.hkeipo.hk**; or

(c) electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents and nominees may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you (or the person(s) for whose benefit you are applying):

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his/her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and Joint Lead Managers or their respective agents and nominees may accept it at its discretion, and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;
- are an associate or a close associate (as defined in the GEM Listing Rules) of any of the above;
- are a connected person or a core connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person or a core connected person of our Company immediately upon completion of the Share Offer; or
- have been allocated or have applied for or indicated an interest in any Placing Shares or otherwise participated in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk**.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Wednesday, 13 February 2019 until 12:00 noon on Monday, 18 February 2019 from:

(a) any of the following offices of the Public Offer Underwriters:

Name	Address
Cinda International Capital Limited	45th Floor COSCO Tower 183 Queen's Road Central Hong Kong
ChaoShang Securities Limited	Rooms 2206–2210, 22nd Floor China Resources Building 26 Harbour Road Wanchai, Hong Kong

(b) any of the following branches of Standard Chartered Bank (Hong Kong) Limited, the receiving bank for the Public Offer:

District	Branch Name	Address
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building 4–4A Des Voeux Road Central, Central
Kowloon	Kwun Tong Branch	G/F & 1/F, One Pacific Centre, 414 Kwun Tong Road, Kwun Tong
New Territories	Tai Po Branch	G/F Shop No.2, 23–25 Kwong Fuk Road, Tai Po Market, Tai Po

You can collect a **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Wednesday, 13 February 2019 until 12:00 noon on Monday, 18 February 2019 from:

- the Depository Counter of HKSCC at 1st Floor, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or

- your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**Horsford Nominees Limited – Narnia (Hong Kong) Group Company Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Wednesday, 13 February 2019 – 9:00 a.m. to 5:00 p.m.
Thursday, 14 February 2019 – 9:00 a.m. to 5:00 p.m.
Friday, 15 February 2019 – 9:00 a.m. to 5:00 p.m.
Saturday, 16 February 2019 – 9:00 a.m. to 1:00 p.m.
Monday, 18 February 2019 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 18 February 2019, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening of the application lists" in this section below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through **HK eIPO White Form**, among other things, you (or if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

(i) undertake to execute all relevant documents and instruct and authorise our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Law and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;

(vi) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing nor participated in the Placing;

(viii) agree to disclose to our Company, the Sole Sponsor, the Sole Global Coordinator, the Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S under the U.S. Securities Act) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of their respective directors, offices, agents, representatives or any other person or parties involved in the Share Offer will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed "2. Who can apply" in this section, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 13 February 2019 until 11:30 a.m. on Monday, 18 February 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 18 February 2019 or such later time under the paragraph headed "10. Effect of bad weather on the opening of the applications lists" in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitted more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as

applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Branch Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Public Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing nor participated in the Placing;

- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and any of their respective directors, officers, agents or representatives or any other person or parties involved in the Share Offer will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and our Company and/or its agents to deposit any Share certificate(s) into CCASS and/or to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose to our Company, the Sole Sponsor, the Sole Global Coordinator, our Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a

person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Public Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Law and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer

Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 5,000 Public Offer Shares. Instructions for more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the relevant Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates: *(Note)*

Wednesday, 13 February 2019 – 9:00 a.m. to 5:00 p.m.
Thursday, 14 February 2019 – 9:00 a.m. to 5:00 p.m.
Friday, 15 February 2019 – 9:00 a.m. to 5:00 p.m.
Saturday, 16 February 2019 – 9:00 a.m. to 1:00 p.m.
Monday, 18 February 2019 – 9:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 13 February 2019 until 12:00 noon on Monday, 18 February 2019 (24 hours daily, except on Monday, 18 February 2019 the last application day).

Note: The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 18 February 2019, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening of the application lists" in this section below.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given

for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facility is subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 18 February 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** Service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"*Unlisted company*" means a company with no equity securities listed on the Stock Exchange.

"*Statutory control*" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Form and have tables showing the exact amount payable for Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 5,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please see the section headed "Structure and Conditions of the Share Offer – Offer Price" in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and. 12:00 noon on Monday, 18 February 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between. 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 18 February 2019 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable" in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expect to announce the final Offer Price, the level of indication of interest in the Placing, the results of applications and the level and the basis of allocation of the Public Offer Shares on Monday, 25 February 2019 on our Company's website at **www.narnia.hk** and the Stock Exchange's website at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.narnia.hk** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Monday, 25 February 2019;

- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, 25 February 2019 to 12:00 midnight on Sunday, 3 March 2019;

- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, 25 February 2019 to Thursday, 28 February 2019 (on a business day);

- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 25 February 2019 to Wednesday, 27 February 2019 at all the designated receiving banks' branches listed above.

If our Company accepts your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Division of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Division notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated, (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;

- your Application Form is not completed in accordance with the stated instructions;

- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;

- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;

- the Underwriting Agreements do not become unconditional or are terminated;

- our Company, the Joint Bookrunners, or the Joint Lead Managers believe(s) that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$0.80 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Share Offer are not fulfilled in accordance with "Structure and Conditions of the Share Offer – Conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Monday, 25 February 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Form, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Monday, 25 February 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 26 February 2019 provided that the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised and the Share Offer has become unconditional. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 25 February 2019 or such other date as notified by us at **www.hkexnews.hk**.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Monday, 25 February 2019, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Monday, 25 February 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, 25 February 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

(i) If you are applying through a designated CCASS participant (other than a CCASS investor participant)

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

(ii) If you are applying as a CCASS Investor Participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph headed "11. Publication of results" in this section above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 25 February 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the

Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 25 February 2019, or such other date as notified by our Company on our Company's website at **www.narnia.hk** or on the Stock Exchange's website at **www.hkexnews.hk** as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, 25 February 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via electronic application instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 25 February 2019, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the paragraph headed "11. Publication of results" in this section above on Monday, 25 February 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 25 February 2019 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 25 February 2019. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 25 February 2019.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF NARNIA (HONG KONG) GROUP COMPANY LIMITED AND CINDA INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Narnia (Hong Kong) Group Company Limited (formerly known as Narnia (HongKong) Group Co., Ltd) (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-76, which comprises the consolidated statements of financial position of the Group as at 31 December 2016 and 2017 and 31 October 2018, the statements of financial position of the Company as at 31 December 2017 and 31 October 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the two years ended 31 December 2017 and the ten months ended 31 October 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-76 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 13 February 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and

plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2016 and 2017 and 31 October 2018, of the Company's financial position as at 31 December 2017 and 31 October 2018 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the ten months ended 31 October 2017 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing issued by the International Auditing and Assurance

Standards Board and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on GEM of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 15 to the Historical Financial Information which contains information about the dividends declared and paid by an entity now comprising the Group in respect of the Track Record Period and states that no dividend was declared or paid by the Company since its incorporation.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
13 February 2019

HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December		Ten months ended 31 October	
		2016	2017	2017	2018
		RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	7	242,386	238,309	185,186	274,261
Cost of sales and services		(207,382)	(192,247)	(148,848)	(220,523)
Gross profit		35,004	46,062	36,338	53,738
Other income	9	4,223	3,444	3,508	10,934
Other gains and losses	10	(1,383)	(3,715)	(5,849)	19,626
Selling and distribution expenses		(2,753)	(1,919)	(1,419)	(1,903)
Administrative expenses		(6,861)	(8,449)	(6,536)	(10,839)
Research expenditure		(6,862)	(6,446)	(4,796)	(8,268)
Listing expenses		–	–	–	(11,726)
Other expenses		(323)	(329)	(329)	(205)
Share of results of an associate		(1,818)	86	542	724
Finance costs	11	(8,284)	(8,202)	(6,720)	(6,215)
Profit before tax	12	10,943	20,532	14,739	45,866
Income tax expense	13	(2,022)	(2,759)	(3,292)	(4,331)
Profit and total comprehensive income for the year/period		8,921	17,773	11,447	41,535
Profit and total comprehensive income for the year/period attributable to:					
– Owners of the Company		8,353	13,947	9,025	34,746
– Non-controlling interests		568	3,826	2,422	6,789
		8,921	17,773	11,447	41,535
Earnings per share					
– Basic *(RMB cents)*	16	0.98	1.94	1.25	5.84

Statements of Financial Position

		The Group			The Company	
		As at 31 December		As at 31 October	As at 31 December	As at 31 October
	Notes	**2016**	**2017**	**2018**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets						
Property, plant and equipment	17	90,097	103,981	107,289	–	–
Deposits paid for acquisition of property, plant and equipment		4,331	410	3,958	–	–
Prepaid lease payments	18	7,019	6,849	6,711	–	–
Investment properties	19	10,180	9,677	9,257	–	–
Intangible asset	20	–	338	807	–	–
Interest in an associate	21	12,836	12,922	–	–	–
Available-for-sale investment	22	13,064	13,064	–	–	–
Financial asset mandatorily measured at fair value through profit or loss ("FVTPL")	23	–	–	17,962	–	–
Deferred tax assets	32	1,151	664	1,126	–	–
Investment in a subsidiary	39(a)	–	–	–	329	84,206
		138,678	147,905	147,110	329	84,206
Current assets						
Inventories	24	69,773	78,012	73,467	–	–
Prepaid lease payments	18	170	170	170	–	–
Trade, bills and other receivables	25	55,727	26,574	35,735	325	3,909
Receivables at fair value through other comprehensive income ("FVTOCI")	26	–	–	196	–	–
Tax recoverable		155	301	–	–	–
Restricted bank balances	28	202	–	–	–	–
Bank balances and cash	28	9,439	5,062	3,163	–	101
		135,466	110,119	112,731	325	4,010

	Notes	The Group			The Company	
		As at 31 December		As at 31 October	As at 31 December	As at 31 October
		2016	2017	2018	2017	2018
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities						
Trade and other payables	29A	50,337	35,407	42,409	329	16,437
Bills payables		192	–	–	–	–
Contract liabilities	29B	2,319	2,477	10,162	–	–
Bank borrowings	30	124,396	126,720	96,421	–	–
Tax payable		166	–	3,101	–	–
Dividends payable		–	92	92	–	–
Finance lease obligations	31	2,343	2,616	395	–	–
		179,753	167,312	152,580	329	16,437
Net current liabilities		(44,287)	(57,193)	(39,849)	(4)	(12,427)
Total assets less current liabilities		94,391	90,712	107,261	325	71,779
Non-current liabilities						
Bank borrowings	30	–	6,607	14,240	–	–
Finance lease obligations	31	2,616	–	–	–	–
		2,616	6,607	14,240	–	–
Net assets		91,775	84,105	93,021	325	71,779
Capital and reserves						
Paid-in/share capital	33	80,265	79,572	325	325	325
Reserves		(7,940)	(14,133)	92,696	–	71,454
Equity attributable to owners of the Company		72,325	65,439	93,021	325	71,779
Non-controlling interests		19,450	18,666	–	–	–
Total equity		91,775	84,105	93,021	325	71,779

Consolidated Statements of Changes in Equity

	Attributable to owners of the Company						
	Paid-in/share capital *RMB'000*	Statutory reserve *RMB'000* *(note a)*	Other reserve *RMB'000* *(note g)*	(Accumulated losses) retained profits *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2016	101,850	3,280	9,591	(31,867)	82,854	–	82,854
Profit and total comprehensive income for the year	–	–	–	8,353	8,353	568	8,921
Appropriation for statutory reserves	–	760	–	(760)	–	–	–
Partial disposal of equity interests held by the Controlling Shareholders (as defined in *note 1*) in Huzhou Narnia Industry Co., Ltd.# (湖州納尼亞實業有限公司) ("Huzhou Narnia") without losing control *(note b)*	(21,585)	(695)	(2,033)	5,431	(18,882)	18,882	–
At 31 December 2016	80,265	3,345	7,558	(18,843)	72,325	19,450	91,775
Profit and total comprehensive income for the year	–	–	–	13,947	13,947	3,826	17,773
Appropriation for statutory reserves	–	727	–	(727)	–	–	–
Dividends *(note 15)*	–	–	–	(20,205)	(20,205)	(5,563)	(25,768)
Capital injection into the Company *(note 2)*	325	–	–	–	325	–	325
Partial disposal of equity interests held by the Controlling Shareholders (as defined in *note 1*) in Huzhou Narnia without losing control *(note b)*	(1,018)	(42)	(96)	203	(953)	953	–
At 31 December 2017	79,572	4,030	7,462	(25,625)	65,439	18,666	84,105
Effect arising from adoption of IFRS 9 *(note c)*	–	–	–	2,105	2,105	601	2,706
Adjusted balance at 1 January 2018	79,572	4,030	7,462	(23,520)	67,544	19,267	86,811

English name is for identification purpose only.

	Attributable to owners of the Company						
	Paid-in/share capital	Statutory reserve	Other reserve	(Accumulated losses) retained profits	Sub-total	Non-controlling interests	Total
	RMB'000	*RMB'000 (note a)*	*RMB'000 (note g)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit and total comprehensive income for the period	–	–	–	34,746	34,746	6,789	41,535
Capital reduction of Huzhou Narnia *(note d)*	(27,232)	–	–	–	(27,232)	(7,768)	(35,000)
Capital contribution by the Controlling Shareholders (as defined in note 1) *(note e)*	–	–	83,552	–	83,552	–	83,552
Effect arising from Group Reorganisation (as defined in note 2) *(note f)*	(52,015)	1,150	(14,898)	174	(65,589)	(18,288)	(83,877)
At 31 October 2018	325	5,180	76,116	11,400	93,021	–	93,021
(Unaudited)							
At 1 January 2017	80,265	3,345	7,558	(18,843)	72,325	19,450	91,775
Profit and total comprehensive income for the period	–	–	–	9,025	9,025	2,422	11,447
Dividends *(note 15)*	–	–	–	(12,281)	(12,281)	(3,303)	(15,584)
Capital injection into the Company *(note 2)*	325	–	–	–	325	–	325
Partial disposal of equity interests held by the Controlling Shareholders (as defined in note 1) in Huzhou Narnia without losing control *(note b)*	(1,018)	(42)	(96)	203	(953)	953	–
At 31 October 2017	79,572	3,303	7,462	(21,896)	68,441	19,522	87,963

Notes:

a: In accordance with the Articles of Association of the subsidiaries established in the People's Republic of China (the "PRC"), the subsidiaries are required to transfer at least 10% of their profit after tax in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC before any distribution of dividends to owner each year to statutory surplus reserve until the reserve reaches 50% of their registered capital. The statutory surplus reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries.

b: During the year ended 31 December 2016 and 2017, the Controlling Shareholders (as defined in Note 1) and Changxing Hengli Investment Company Limited[#] (長興恒力投資有限公司) ("Changxing Hengli Investment"), which were 100% held by the Controlling Shareholders, had transferred their 21.2% and 1.0% equity interests

[#] *English name is for identification purpose only.*

of Huzhou Narnia in aggregate without losing control. These transactions resulted in the recognition of non-controlling interests of Huzhou Narnia with corresponding debit to paid-in capital, statutory reserve and other reserve and credit to accumulated losses.

c: Upon the adoption of IFRS 9 "*Financial Instruments*" on 1 January 2018, the cumulative impact of RMB2,706,000 was recorded as an adjustment to the accumulated losses and non-controlling interests as at 1 January 2018, including additional loss allowance recognised under IFRS 9 of RMB1,796,000 and gain from fair value remeasurement of an investment in an unlisted company of RMB5,264,000 and their corresponding deferred tax impact of RMB762,000. Further details are set out in note 4.

d: On 6 March 2018, pursuant to an extraordinary general meeting of Huzhou Narnia, it was resolved and approved Huzhou Narnia to reduce its paid-in capital from RMB101,850,000 to RMB66,850,000, and to resulting in return the amount of RMB35,000,000 to its shareholders, of which was completed during the ten months ended 31 October 2018.

e: In May and June 2018, Spring Sea (as defined in Note 1) and Summer Land (as defined in Note 2) contributed RMB83,552,000 in aggregate to the Company to complete the Group Reorganisation and had been credited to other reserve.

f: This represents the effects of the acquisition of the entire registered capital of Huzhou Narnia by Hengye Development Limited ("Hengye Development"), a subsidiary of the Company, from the Controlling Shareholders as to 77.81% and the non-controlling shareholders as to 22.19% for an aggregate cash consideration of RMB83,877,000 as part of the Group Reorganisation. Upon completion of the above transactions, the balance of share capital, retained profit, statutory reserve and other reserve of Huzhou Narnia attributable to the non-controlling interest amounting to RMB14,835,000, RMB174,000, RMB1,150,000 and RMB2,129,000, respectively, was reclassified to the owners of the Company. The transaction was completed on 10 May 2018, and since then the Group Reorganisation was completed and there was no longer any non-controlling interests to the Group.

g: The opening balance of other reserve comprises of (1) the deemed contribution by the Controlling Shareholders to the Group, and (2) capitalisation of retained profit and statutory reserve of Huzhou Narnia upon conversion into a joint stock company in 2011 as other reserve amounting to RMB8,107,000.

Consolidated Statements of Cash flows

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
OPERATING ACTIVITIES				
Profit before tax	10,943	20,532	14,739	45,866
Adjustments for:				
Depreciation of property, plant and equipment	3,042	4,320	3,658	6,205
Depreciation of investment properties	504	503	420	420
Amortisation of prepaid lease payments	126	126	101	101
Amortisation of intangible asset	–	3	–	63
Bank interest income	(340)	(16)	(14)	(13)
Finance cost	8,284	8,202	6,720	6,215
Total loss allowance on financial assets recognised (reversed)	1,743	(1,992)	188	446
Loss on disposal of property, plant and equipment	793	5,231	5,231	1,328
Share of loss (profit) of an associate	1,818	(86)	(542)	(724)
Dividend received from available-for-sale investment	(688)	(984)	(984)	–
Dividend received from financial asset mandatorily measured at FVTPL	–	–	–	(1,059)
Gain on change in fair value of financial asset mandatorily measured at FVTPL	–	–	–	366
Gain on disposal of an associate	–	–	–	(23,003)
Net exchange (gains) losses	(1,153)	476	430	1,237
Operating cash flows before movements in working capital	25,072	36,315	29,947	37,448
(Increase) decrease in inventories	(14,239)	(2,516)	(5,149)	8,067
Decrease (increase) in trade, bills and other receivables	8,622	30,589	9,036	(7,225)
Decrease in receivables at FVTOCI	–	–	–	24
Increase (decrease) in trade and other payables	24,630	(3,936)	(6,420)	6,262
(Decrease) increase in contract liabilities	(13,288)	158	14,202	7,685
Decrease in bills payables	(36,968)	(192)	(192)	–
Cash (used in) generated from operations	(6,171)	60,418	41,424	52,261
PRC Enterprise Income Tax paid	(1,320)	(2,584)	(2,516)	(2,153)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(7,491)	57,834	38,908	50,108

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
INVESTING ACTIVITIES				
Purchase of and deposits placed for property, plant and equipment	(10,685)	(21,719)	(19,588)	(18,268)
Proceeds from disposal of property, plant and equipment	1,452	488	488	124
Purchase of intangible asset	–	(341)	–	(532)
Interest received	340	16	14	13
Purchase of additional interest in available-for-sale investment	(660)	–	–	–
Dividend received from available-for-sale investment	688	984	984	–
Dividend received from financial asset at FVTPL	–	–	–	1,059
Withdrawal of pledged bank deposits	22,258	202	202	–
Proceeds from disposal of an associate *(note 21)*	–	–	–	34,950
NET CASH FROM (USED IN) INVESTING ACTIVITIES	13,393	(20,370)	(17,900)	17,346
FINANCING ACTIVITIES				
New bank borrowings raised	165,961	170,834	143,356	187,543
Repayments of bank borrowings	(157,276)	(161,435)	(129,767)	(210,544)
Finance lease obligations raised	4,959	–	–	–
Repayment of finance lease obligations	(6,300)	(2,880)	(2,400)	(2,400)
Proceed from transfer of bank acceptance bills	348	–	–	–
Payment for purchase of bank acceptance bills	–	(14,720)	(14,720)	–
Deferred issue cost paid	–	–	–	(2,922)
Interest paid	(7,323)	(7,576)	(6,316)	(6,241)
Dividend paid	–	(25,676)	(15,584)	–
Capital reduction of Huzhou Narnia	–	–	–	(35,000)
Proceeds from issue of shares	–	–	–	325
Advance from related parties	–	–	–	553
Capital injection by the Controlling Shareholders	–	–	–	83,552
Consideration paid for acquisition of a subsidiary under common control	–	–	–	(83,877)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	369	(41,453)	(25,431)	(69,011)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,271	(3,989)	(4,423)	(1,557)

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	3,037	9,439	9,439	5,062
EFFECT OF EXCHANGE RATE CHANGE	131	(388)	(456)	(342)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD				
Represented by:				
Bank balances and cash	9,439	5,062	4,560	3,163

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

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 addresses of the Company's registered office and the principal place of business are disclosed in the section "Corporate Information" in the Prospectus. The Group is principally engaged in the manufacture and sale of fabrics and the provision of printing and dyeing services.

Pursuant to the Group Reorganisation (as detailed below), the Company became the holding company of the entities now comprising the Group on 10 May 2018.

The immediate holding company of the Company is Spring Sea Star Investment Limited ("Spring Sea"), an investment holding company incorporated in the British Virgin Islands (the "BVI") with limited liability on 14 June 2017, holding 100% of the equity interest of the Company, and was owned as to approximately 53.98% by Mr. Dai Shunhua ("Mr. Dai") and approximately 46.02% by Ms. Song Xiaoying, the spouse of Mr. Dai, ("Ms. Song") (collectively the "Controlling Shareholders"). Upon completion of the Group Reorganisation, the Controlling Shareholders owned as to approximately 78.81% of the Company.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared in accordance with the accounting policies set out in note 5 which conform with IFRSs.

The principle business of the Group had been operated by Huzhou Narnia and its subsidiaries prior to the Group Reorganisation. Historically, all the entities comprising the Group were controlled by the Controlling Shareholders and held by them directly or indirectly. During the year ended 31 December 2016 and 2017, the Controlling Shareholders and Changxing Hengli Investment transferred its 21.2% and 1.0% equity interests of Huzhou Narnia in aggregate to a number of independent third parties without losing control.

In preparing for the initial public offering and listing of the shares of the Company on GEM of the Stock Exchange ("Listing"), the companies comprising the Group underwent a group reorganisation as described below ("Group Reorganisation").

The major steps of Group Reorganisation comprised the following steps:

- On 14 June 2017, Spring Sea was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US$1 each. On the date of its incorporation, Spring Sea allotted and issued 26,991 shares and 23,009 shares with a par value of US$1 each as fully paid to Mr. Dai and Ms. Song, respectively. Spring Sea then became owned as to approximately 53.98% and 46.02% by Mr. Dai and Ms. Song, respectively;

- On 5 July 2017, Summer Land Star Investment Limited ("Summer Land") was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US$1 each. On the date of its incorporation, Summer Land was owned by the non-controlling shareholders of Huzhou Narnia;

- On 1 September 2017, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. As at the date of its incorporation, it had an authorised share capital of US$50,000 divided into 50,000 Shares with a par value of US$1 each, allotted and issued one subscriber share as fully paid to a nominee subscriber. On the same date, the nominee subscriber as transferor executed an instrument of transfer in favour of Spring Sea as transferee, pursuant to which the nominee subscriber transferred the one share, representing the entire issued share capital of the Company, to Spring Sea for a consideration of US$1. On the same date, the Company further allotted and issued 39,403 shares and 10,596 shares credited as fully paid to Spring Sea and Summer Land, respectively. The Company then became owned as to approximately 78.8% by Spring Sea and approximately 21.2% by Summer Land;

- On 16 October 2017, Autumn Sky Star Investment Limited ("Autumn Sky") was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US$1 each. On 16 October 2017, Autumn Sky allotted and issued 50,000 shares credited as fully paid to the Company. The entire issued share capital of Autumn Sky then became wholly-owned by the Company;

- On 30 October 2017, Hengye Development was incorporated in Hong Kong with limited liability. On the date of its incorporation, Hengye Development allotted and issued 10,000 subscriber shares for a total consideration of HK$10,000 credited as fully paid to Autumn Sky. The entire issued share capital of Hengye Development then became wholly-owned by Autumn Sky;

- Prior to the Group Reorganisation, Huzhou Narnia held 23.34% of the equity interest in a PRC company namely Changxing Hengli Financing Company Limited[#] (長興恒力小額貸款有限公司) ("Changxing Hengli Financing"), which principally engaged in financing to small enterprises. As the Group has been positioned to provide textile printing and dyeing services, and the business of Changxing Hengli Financing is not related to the Group's principal business, the entire 23.34% equity interest held by Huzhou Narnia had been disposed of to an independent third party namely Changxing Transport Investment Group Co., Ltd.[#] (長興交通投資集團有限公司) on 30 March 2018;

- On 10 May 2018, being the completion date of Group Reorganisation, Hengye Development acquired 100% equity interests of Huzhou Narnia and its wholly-owned subsidiaries, Narnia International (Hong Kong) Limited ("Narnia International") and Changxing Seashore Industrial Co., Ltd.[#] (長興濱里實業有限公司) ("Changxing Seashore"), for a cash consideration of RMB83,877,000;

- In May and June 2018, Spring Sea and Summer Land contributed RMB83,552,000 in aggregate to the Company so as to enable the Group to have adequate funding to complete the Group Reorganisation. The Company then injected RMB83,877,000 as capital contribution in Hengye Development to settle the acquisition consideration of Huzhou Narnia amounted to RMB83,877,000.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period including the results, changes in equity and cash flows of the companies comprising the Group, on the basis stated above, as if the Company had always been the holding company of the Group and the group structure upon completion of the Group Reorganisation had been in existence throughout the Track Record Period, or since their respective dates of incorporation, where this is a shorter period.

The consolidated statements of financial position of the Group as at 31 December 2016 and 2017 have been prepared to present the assets and liabilities of the companies comprising the Group at the carrying amounts shown in the financial statements of the Group entities on the basis stated above, as if the Company had always been the holding company of the Group and the group structure upon completion of the Group Reorganisation had been in existence at those dates.

The Historical Financial Information is presented in RMB, which is the same as the function currency of the Company.

[#] *English name is for identification purpose only*

3. GOING CONCERN ASSUMPTION

In light of the fact that the Group had current liabilities exceeded its current assets by RMB39,849,000 as at 31 October 2018, the directors of the Company have given careful consideration to the going concern of the Group and the Company.

In respect of the bank borrowings with carrying amount of RMB110,661,000 as at 31 October 2018, of which RMB96,421,000 will be matured in the coming next 12 months after 31 October 2018 in accordance with the repayment schedule of the respective agreements. The directors of the Company are of the view that the Group would be able to renew the majority of these borrowings upon their maturity or extend their maturity date, based on the relationship and successful renewal history with the banks.

Furthermore, as at 31 October 2018, the Group has available unutilised banking facilities amounted to RMB27,400,000. Up to date of this report, the Group has further obtained additional unutilised facilities totaling RMB6,400,000.

Taking into account the above factors, the directors of the Company are of the opinion that, together with the presently available facilities and probable renewal of existing facilities, the internal financial resources of the Group and cash flow from operating activities, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the date of this report. Hence, the Historical Financial Information has been prepared on a going concern basis.

4. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

Application of new and amendments to IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has applied all International Accounting Standards ("IASs"), IFRSs and amendments which are effective for the Group's accounting period beginning on 1 January 2018, including IFRS 15 "*Revenue from Contracts with Customers*" consistently throughout the Track Record Period, except that the Group adopted IFRS 9 "*Financial Instruments*" on 1 January 2018 and applied IAS 39 "*Financial Instruments: Recognition and Measurement*" for the two years ended 31 December 2017. The accounting policies for financial instruments under IFRS 9 are set out in note 5.

IFRS 9 Financial Instruments

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

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

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity as at 1 January 2018, without restating the financial information for the years ended 31 December 2016 and 2017.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities, other items subject to ECL and impacted upon adoption of IFRS 9 and IAS 39 at the date of initial application on 1 January 2018.

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

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

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

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

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

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

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

	Trade Receivables *RMB'000*	Other receivables *RMB'000*
At 31 December 2017 – IAS39	922	1
Amounts remeasured through opening accumulated losses	95	2
At 1 January 2018	1,017	3

New and amendments to IFRSs issued but not yet effective

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

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

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

IFRS 16 Leases

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 October 2018, the Group has non-cancellable operating lease commitments of RMB1,350,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases, and such changes would increase the consolidated assets and consolidated liabilities of the Group, but would not result in a significant change to the consolidated net asset value and financial performance of the Group.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Furthermore, the Group also intends to elect the practical expedient not to apply for leases for which the lease term ends within 12 months at the date of initial application. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

The directors of the Company anticipate that the application of other new and amendments to IFRSs will have no material impact on the Group's financial position and financial performance when they become effective.

5. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with accounting policies which conform with IFRSs issued by the IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis, except for financial asset mandatorily measured at FVTPL and receivables at FVTOCI, at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

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

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

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

Investment in a subsidiary

Investment in a subsidiary is stated in the statements of financial position of the Company at cost less any identified impairment loss.

Interest in an associate

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

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

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

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

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

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

Control of the goods or services may be transferred over time or at a point in time. Control of the goods or services is transferred over time if:

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

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress toward complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

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

Leasehold land and building

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

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

Foreign currencies

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

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

Borrowing costs

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

Government grants

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

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

Retirement benefit costs

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

Short-term employee benefits

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

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

Taxation

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

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

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

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

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

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

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

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

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

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

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

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

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

Investment properties

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

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

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

Intangible assets

Intangible assets acquired separately

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

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

Research expenditure

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

Impairment on tangible and intangible assets

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

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

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

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

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

Inventories

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

Financial instruments under IAS 39 (before the adoption of IFRS 9 on 1 January 2018)

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Available-for-sale investment

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts considered previously written off are credited to profit or loss.

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

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

Derecognition

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

asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

Financial instruments (under IFRS 9)

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

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

Classification and subsequent measurement of financial assets

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

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

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

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

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

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

All other financial assets are subsequently measured at FVTPL.

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

Amortised cost and interest income

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

Receivables classified as at FVTOCI

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

Financial assets at FVTPL

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

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

Impairment under ECL model

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

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

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

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

Significant increase in credit risk

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a deregistration event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivables, pledged bank deposits and bank balances and cash are each assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

Derecognition of financial assets

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

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

On derecognition of a debt instrument classified as FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the equity is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (1) contingent consideration of an acquirer in a business combination, (2) held-for-trading, or (3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 5, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Judgements in determining the classification of bills receivables

As part of the Group's cash flow management, the Group has the practice of endorsing substantial part of bills receivables to suppliers before the bills are due for payment. Upon the initial application of IFRS9 on 1 January 2018, the management of the Group considered that the Group's business model over bills receivables is hold to collect contractual cash flows and selling them. Therefore, the management of the Group has satisfied that bills receivables are classified as receivables at FVTOCI.

Key sources of estimation uncertainty

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

Estimated impairment of financial assets

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

Before the adoption of IFRS 9, the directors of the Company estimate the amount of loss allowance using incurred credit loss model. The impairment loss amount of the individual trade receivable is the net decrease in the present value of the estimated future cash flows, and the evidence of impairment may include observable data indicating that there is a measurable decrease in the estimated future cash flows of the individual trade receivable. The Group periodically reviews its trade receivables to assess impairment individually and collectively except that there are known situation demonstrating impairment losses have occurred during that period. The Group makes judgements as to whether there is any observable data indicating that an impairment loss should be recorded in the statements of profit or loss and other comprehensive income from a portfolio of trade receivables before the decrease can be identified with an individual trade receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of the counterparty (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the portfolio. The directors of the Company use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

Since the adoption of IFRS 9 on 1 January 2018, the directors of the Company estimate the amount of loss allowance for ECL on trade and other receivables, receivables at FVTOCI and bank balances based on the credit risk of the financial assets. The estimation of the credit risk of the financial assets involves high degree of

estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

Recognition of deferred tax assets

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

As at 31 December 2016 and 2017 and 31 October 2018, the carrying amount of deferred tax assets was RMB1,151,000, RMB664,000 and RMB1,126,000, respectively.

7. REVENUE

Revenue represents the amounts received and receivable from the sale of fabrics products, service revenue from printing and dyeing, net of sales related taxes during the Track Record Period.

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

	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sale of fabric, recognised at a point in time	209,098	166,735	128,920	183,134
Service revenue from printing and dyeing service, recognised over time	33,288	71,574	56,266	91,127
Total	242,386	238,309	185,186	274,261

Sales of fabric

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

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

Printing and dyeing service

Revenue relating to the printing and dyeing service is recognised over time throughout the processing period because the Group's performance enhances an asset that its customers control 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 associate goods or service is less than one year.

8. SEGMENT INFORMATION

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

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

Geographical information

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

	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(unaudited)	
Mainland China	132,745	173,844	145,544	200,372
Hong Kong	59,579	45,176	23,198	60,105
Others regions	50,062	19,289	16,444	13,784
Total	242,386	238,309	185,186	274,261

The Group's operations are in the PRC and all its non-current assets (excluding available-for-sale investment, financial asset mandatorily measured at FVTPL and deferred tax assets) are located in the PRC.

Information about major customers

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

	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(unaudited)	
Customer A	68,363	75,626	65,941	68,450
Customer B	30,524	*(note)*	*(note)*	*(note)*

Note: The Group carried out transactions with this customer but the amount of the transactions was less than 10% of revenue for the respective year/period.

9. OTHER INCOME

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income	340	16	14	13
Net gain on sales of raw materials	573	295	387	3,464
Net gain on sales of scraps	–	–	–	1,937
Government subsidies *(note)*	2,607	2,076	2,076	4,219
Dividend received from available-for-sale investment	688	984	984	–
Dividend received from financial asset mandatorily measured at FVTPL	–	–	–	1,059
Rental income	–	54	36	138
Others	15	19	11	104
	4,223	3,444	3,508	10,934

Note: The amount represents unconditional government subsidies received from local government in connection with the enterprise development support, innovation capabilities incentives and various tax return during the Track Record Period.

10. OTHER GAINS AND LOSSES

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(Recognition)/reversal of loss allowances on trade receivables	(2,006)	1,220	(342)	(446)
Reversal of loss allowances on other receivables	263	772	154	–
Total loss allowance on financial assets (recognised) reversed	(1,743)	1,992	(188)	(446)
Loss on disposal of property, plant and equipment	(793)	(5,231)	(5,231)	(1,328)
Gain on disposal of an associate *(note 21)*	–	–	–	23,003
Net exchange gains (losses)	1,153	(476)	(430)	(1,237)
Loss on change in fair value of financial assets mandatorily measured at FVTPL	–	–	–	(366)
	(1,383)	(3,715)	(5,849)	19,626

For the year ended 31 December 2016 and 2017 and the ten months ended 31 October 2017 and 2018, the loss on disposal of property, plant and equipment included the loss on disposal of building of RMB12,000, RMB151,000, RMB13,000 (unaudited) and RMB335,000, respectively.

11. FINANCE COSTS

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank borrowings	7,549	7,665	6,249	6,036
Interest on finance lease obligations	735	537	471	179
Total	8,284	8,202	6,720	6,215

12. PROFIT BEFORE TAX

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit before tax has been arrived at after charging (crediting):				
Depreciation of property, plant and equipment	9,223	9,999	8,211	9,690
Depreciation of investment properties	504	503	420	420
Amortisation of prepaid lease payments	170	170	138	138
Amortisation of intangible asset	–	3	–	63
Total depreciation and amortisation	9,897	10,675	8,769	10,311
Capitalised in inventories	(6,225)	(5,723)	(4,590)	(3,522)
Total depreciation and amortisation charged to profit or loss	3,672	4,952	4,179	6,789
Analysed as:				
Charged in cost of services	2,252	3,520	3,002	5,460
Charged in administrative expenses	841	855	706	1,010
Charged in research expenditure	579	577	471	319
	3,672	4,952	4,179	6,789
Directors' emoluments *(note 14)*				
– Salaries and other benefits	138	145	121	165
– Retirement benefit scheme contributions	55	56	47	48
– Discretionary performance related bonus	–	55	–	–
	193	256	168	213
Other staff costs				
– Salaries and other benefits	8,972	9,994	8,064	13,217
– Retirement benefit scheme contributions	1,396	1,997	1,577	3,391
– Discretionary performance related bonus	–	776	–	–
	10,368	12,767	9,641	16,608
Total staff costs	10,561	13,023	9,809	16,821
Capitalised in inventories	(4,794)	(4,084)	(3,206)	(3,628)
Total staff costs charged to profit or loss	5,767	8,939	6,603	13,193
Analysed as:				
Charged in cost of services	2,203	3,680	2,936	6,350
Charged in administrative expenses	2,266	4,282	2,800	5,693
Charged in research expenditure	1,298	977	867	1,150
	5,767	8,939	6,603	13,193
Cost of inventories recognised as cost of sales and services	192,596	159,399	122,939	187,478
Cost of inventories recognised as research expenditure	4,802	4,766	3,343	6,567
Depreciation and amortisation	579	577	471	319
Staff cost	1,298	977	867	1,150
Other expenses charged in research expenditure	183	126	115	232
Total research expenditure	6,862	6,446	4,796	8,268

13. INCOME TAX EXPENSE

	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax				
PRC Enterprise Income Tax ("EIT")	2,379	2,272	3,288	5,555
Deferred tax (credit) charge *(note 32)*	(357)	487	4	(1,224)
	2,022	2,759	3,292	4,331

No provision for Hong Kong Profits Tax was made in the Historical Financial Information as the Group had no assessable profit subject to Hong Kong Profits Tax during the Track Record Period.

Provision for the EIT during the Track Record Period was made based on the estimated assessable profits calculated in accordance with income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

Huzhou Narnia is recognised as "High and New Technology Enterprise" which is jointly verified by Zhejiang Science and Technology Department, Zhejiang Finance Department, the State Taxation Bureau of Zhejiang Province and Local Taxation Bureau of Zhejiang Province on 27 October 2014 and therefore entitled to a preferential tax rate of 15% from 1 January 2014 to 31 December 2016. The certificate was renewed on 13 November 2017 with an extension on preferential period of a term of further three years ending on 31 December 2019. For the ten months ended 31 October 2017, the applicable tax rate of Huzhou Narnia was 25%. Under the Law of the PRC Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of Changxing Seashore (as defined in note 43) is 25%.

The income tax expense for the Track Record Period can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before tax	10,943	20,532	14,738	45,866
Tax at PRC EIT rate of 25%	2,736	5,133	3,684	11,466
Tax effect of expense not deductible for tax purpose	150	168	91	3,219
Effect of share of results of an associate	455	(22)	(135)	(181)
Tax effect of income not taxable for tax purpose	(172)	(246)	(246)	(265)
Utilisation of deductible temporary difference previously not recognised	–	–	–	(5,751)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	–	(806)	–	(1,550)
Income taxed at concessionary rate	(1,147)	(1,468)	(102)	(2,607)
Income tax expense	2,022	2,759	3,292	4,331

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

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

Details of the emoluments paid to the individuals who were appointed as the directors of the Company (including emoluments for services as senior management of the group entities prior to becoming the directors of the Company, during the Track Record Period, disclosed pursuant to the applicable GEM Listing Rules), are as follows:

	Date of appointment as a director of the Company	Fees *RMB'000*	Discretionary performance related bonus *RMB'000*	Salaries *RMB'000*	Retirement benefits schemes contribution *RMB'000*	Total *RMB'000*
Year ended 31 December 2016						
Executive directors						
Mr. Dai *(note)*	1 September 2017	–	–	55	23	78
Ms. Song	23 July 2018	–	–	43	23	66
Mr. Wang Yongkang	23 July 2018	–	–	40	9	49
		–	–	138	55	193

	Date of appointment as a director of the Company	Fees *RMB'000*	Discretionary performance related bonus *RMB'000*	Salaries *RMB'000*	Retirement benefits schemes contribution *RMB'000*	Total *RMB'000*
Year ended 31 December 2017						
Executive directors						
Mr. Dai *(note)*	1 September 2017	–	20	55	24	99
Ms. Song	23 July 2018	–	18	43	24	85
Mr. Wang Yongkang	23 July 2018	–	17	47	8	72
		–	55	145	56	256

	Date of appointment as a director of the Company	Fees *RMB'000*	Discretionary performance related bonus *RMB'000*	Salaries *RMB'000*	Retirement benefits schemes contribution *RMB'000*	Total *RMB'000*
Ten months ended 31 October 2017 (unaudited)						
Executive directors						
Mr. Dai *(note)*	1 September 2017	–	–	46	20	66
Ms. Song	23 July 2018	–	–	36	20	56
Mr. Wang Yongkang	23 July 2018	–	–	39	7	46
		–	–	121	47	168

	Date of appointment as a director of the Company	Fees	Bonus	Salaries and other benefits	Retirement benefits schemes contribution	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Ten months ended 31 October 2018						
Executive directors						
Mr. Dai *(note)*	1 September 2017	–	–	63	20	83
Ms. Song	23 July 2018	–	–	53	20	73
Mr. Wang Yongkang	23 July 2018	–	–	49	8	57
		–	–	165	48	213

Note: Mr. Dai is General Manager of the Group and assumed the role of Chief Executive Officer of the Company during the Track Record Period whose emoluments has been included in the above.

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company (after incorporation) and the Group during the Track Record Period.

(B) Five highest paid employees

Of the five individuals with the highest emoluments in the Group for the each of the two years ended 31 December 2016 and 2017 and the ten months ended 31 October 2017 and 2018, 1, 1, 1 (unaudited) and 2 respectively, were directors of the Company whose emoluments are included in the disclosure above. The emoluments of the remaining 4, 4, 4 (unaudited) and 3, respectively, individual(s) for each of the two years ended 31 December 2016 and 2017 and the ten months ended 31 October 2017 and 2018, respectively, were as follows:

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries	210	214	174	174
Bonus	–	75	–	–
Retirement benefits schemes contribution	35	34	28	29
	245	323	202	203

The emoluments of each of the five highest paid employees above were less than HK$1,000,000 during each of the two years ended 31 December 2016 and 2017 and the ten months ended 31 October 2017 and 2018.

During the Track Record Period, no emoluments were paid by the Group to any of the directors of the Company or five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or Chief Executive Officer of the Company waived any emoluments during the Track Record Period.

15. DIVIDENDS

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Huzhou Narnia	–	25,768	15,584	–

The rate of dividend and number of shares ranking for dividend are not presented as such information is not considered meaningful having regards to the purpose of this report. No dividend has been proposed by the Company during the Track Record Period and subsequent to 31 October 2018.

16. EARNINGS PER SHARE

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

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
			(unaudited)	
Earnings:				
Profit for the year/period attributable to owners of the Company for the purpose of basic earnings per share *(RMB'000)*	8,353	13,947	9,025	34,746
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	855,722,868	718,024,633	719,381,501	594,952,499

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Group Reorganisation, the share sub-division of 1 share into 1,000 shares and the capitalisation issue set out in the section headed "Share Capital" in this Prospectus (the "Capitalisation Issue") had been effective on 1 January 2016.

No diluted earnings per share was presented as there were no potential ordinary shares in issue throughout the Track Record Period.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Equipment and machinery	Motor vehicles	Construction in progress/ assets under installation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2016	58,533	1,993	65,911	782	–	127,219
Additions	17	–	5,546	–	1,222	6,785
Disposals	(248)	(871)	(5,668)	(280)	–	(7,067)
Transfers	–	–	1,155	–	(1,155)	–
At 31 December 2016	58,302	1,122	66,944	502	67	126,937
Additions	97	184	21,515	688	7,118	29,602
Disposals	(364)	(45)	(9,407)	(105)	–	(9,921)
Transfers	–	–	1,436	–	(1,436)	–
At 31 December 2017	58,035	1,261	80,488	1,085	5,749	146,618
Additions	288	216	7,628	367	5,951	14,450
Disposals	(849)	(58)	(2,050)	(33)	–	(2,990)
Transfers	8,349	–	3,257	–	(11,606)	–
At 31 October 2018	65,823	1,419	89,323	1,419	94	158,078
ACCUMULATED DEPRECIATION						
At 1 January 2016	10,072	1,065	20,832	470	–	32,439
Provided for the year	2,798	276	6,072	77	–	9,223
Elimination on disposals	(235)	(828)	(3,493)	(266)	–	(4,822)
At 31 December 2016	12,635	513	23,411	281	–	36,840
Provided for the year	2,800	278	6,804	117	–	9,999
Elimination on disposals	(213)	(40)	(3,849)	(100)	–	(4,202)
At 31 December 2017	15,222	751	26,366	298	–	42,637
Provided for the period	2,544	255	6,700	191	–	9,690
Elimination on disposals	(514)	(48)	(963)	(13)	–	(1,538)
At 31 October 2018	17,252	958	32,103	476	–	50,789
CARRYING VALUES						
At 31 December 2016	45,667	609	43,533	221	67	90,097
At 31 December 2017	42,813	510	54,122	787	5,749	103,981
At 31 October 2018	48,571	461	57,220	943	94	107,289

The above items of property, plant and equipment, other than construction in progress/assets under installation, are depreciated over their estimated useful lives and after taking into account their estimated residual values, using straight-line method, as follows:

	Useful lives	Estimated residual values
Buildings	20 years	4.75%
Furniture, fixtures and equipment	3–5 years	19%–31.67%
Equipment and machinery	5–10 years	9.5%–19%
Motor vehicles	5 years	19.00%

As at 31 December 2016 and 2017 and 31 October 2018, the net book value for machinery of RMB6,705,000, RMB5,632,000 and RMB4,737,000, respectively, as shown above was held under a finance lease as set out in note 31.

As at 31 December 2016 and 2017 and 31 October 2018, certain of Group's buildings and equipment and machinery totalling with the net book value of RMB60,869,000, RMB55,789,000 and RMB52,121,000, respectively, were pledged to secure certain short-term bank borrowings and Mr. Dai's personal borrowings as set out in note 36.

18. PREPAID LEASE PAYMENTS

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Analysed for reporting purpose as:			
Non-current portion	7,019	6,849	6,711
Current portion	170	170	170
	7,189	7,019	6,881

The Group's prepaid lease payments comprise land use rights over state-owned land in the PRC and are amortised on a straight-line basis over the lease terms of 50 years.

As at 31 December 2016 and 2017 and 31 October 2018, all of Group's prepaid lease payments were pledged to secure certain short-term bank borrowings and Mr. Dai's personal borrowings as set out in note 36.

19. INVESTMENT PROPERTIES

	Buildings *RMB'000*
COST	
At 1 January 2016, 31 December 2016 and 2017 and 31 October 2018	13,319
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
At 1 January 2016	2,635
Provided for the year	504
At 31 December 2016	3,139
Provided for the year	503
At 31 December 2017	3,642
Provided for the period	420
At 31 October 2018	4,062
CARRYING VALUES	
At 31 December 2016	10,180
At 31 December 2017	9,677
At 31 October 2018	9,257

As at 31 December 2016 and 2017 and 31 October 2018, the fair value of the Group's investment properties was RMB15,912,000, RMB16,315,000, RMB17,590,000, respectively. The fair value has been arrived at based on a valuation carried out by the AVISTA Valuation Advisory Limited, a firm of independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experience in the valuation of similar investment properties. The address of the independent valuer is Block A, 15th Floor, Sino-Ocean Tower, No. 618 East Yan An Road, Shanghai, the PRC. The fair value is determined based on the direct comparison approach, reflecting recent transaction prices or current asking prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 and 2017 and 31 October 2018 are as follows:

	Level 2 *RMB'000*	**Fair value as at 31 December 2016** *RMB'000*
Commercial properties located in Changxing, the PRC	15,912	15,912

	Level 2 *RMB'000*	**Fair value as at 31 December 2017** *RMB'000*
Commercial properties located in Changxing, the PRC	16,315	16,315

	Level 2	Fair value as at 31 October 2018
	RMB'000	*RMB'000*
Commercial properties located in Changxing, the PRC	17,590	17,590

The above investment properties are depreciated on a straight-line basis, taking into account their residual value, at the following rate per annum:

Buildings	4.75%

All the investment properties are located in the PRC. As at 31 December 2016 and 2017 and 31 October 2018, certain of Group's investment properties with the net book value of RMB10,180,000, RMB6,748,000 and RMB6,455,000, respectively, were pledged to secure short-term bank borrowings and Mr. Dai's personal borrowings as set out in note 36.

20. INTANGIBLE ASSET

	Software
	RMB'000
COST	
At 1 January 2016 and 31 December 2016	–
Additions	341
At 31 December 2017	341
Additions	532
At 31 October 2018	873
ACCUMULATED AMORTISATION	
At 1 January 2016 and 31 December 2016	–
Provided for the year	3
At 31 December 2017	3
Provided for the period	63
At 31 October 2018	66
CARRYING VALUE	
At 31 December 2016	–
At 31 December 2017	338
At 31 October 2018	807

The above intangible asset is amortised on a straight-line basis based on its estimated useful life as follows:

Software	10 years

21. INTEREST IN AN ASSOCIATE

Details of the Group's interest in an associate are as follows:

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
			(Note)
Cost of investment in an associate, unlisted	35,003	35,003	–
Share of post-acquisition loss	(22,167)	(22,081)	–
	12,836	12,922	–

Name of entity	Form of business structure	Place and date of establishment	Principal place of operation	Proportion of equity interests held by the Group as at 31 December 2016 %	2017 %	31 October 2018 *(note)*	Date of this report	Principal activity
Changxing Hengli Financing	Limited liability company	the PRC	the PRC	23.34	23.34	–	–	Provision of financing solutions to small enterprise in the PRC

Note: On 30 March 2018, the Group disposed of its 23.34% equity interests in Changxing Hengli Financing to an independent third party for a cash consideration of RMB34,950,000. On date of disposal, the carrying amount of the Group's interest in an associate amounted to RMB11,947,000, resulting in a gain on disposal of an associate of RMB23,003,000 credited to profit or loss.

The financial information below represents amounts shown in the financial statements in respect of Changxing Hengli Financing prepared in accordance with IFRSs.

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Assets	78,019	69,292	N/A
Liabilities	(23,014)	(13,918)	N/A
Net assets	55,005	55,374	N/A
Proportion of the Group's ownership interest therein	23.34%	23.34%	–
Group's share of net assets of an associate	12,836	12,922	N/A

	Year ended 31 December		Ten months ended 31 October	For the period from 1 January 2018 to 31 March
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	4,879	5,292	4,424	943
(Loss) profit and total comprehensive (expense) income for the year/period	(7,792)	370	2,322	3,104

As at 31 December 2016 and 2017, the Group's equity interest in Changxing Hengli Financing were pledged to secure certain short-term bank borrowings as set out in note 36.

22. AVAILABLE-FOR-SALE INVESTMENT

	As at 31 December	
	2016	2017
	RMB'000	*RMB'000*
Measured at cost		
Unlisted equity investment	13,064	13,064

As at 1 January 2016, the Group held 7,239,994 shares, representing 1.03%, of an unlisted local rural commercial bank. On 30 May 2016, the local rural commercial bank granted 325,800 bonus shares to the Group. On 22 August 2016, the Group acquired additionally 300,000 shares, representing 0.04%, of the unlisted local rural commercial bank at a consideration of RMB660,000. The Group did not possess any right to nominate directors, thus no significant influence could be exercised by the Group over this investee.

As at 31 December 2016 and 2017, the above equity investment was measured at cost less impairment because the investment did not have a quoted market price in an active market and their fair value could not be reliably measured. The directors of the Company reviewed the financial performance of their available-for-sale investment and performed impairment assessment and had assessed that no impairment was necessary to be provided as at 31 December 2016 and 2017.

On 1 January 2018, the Group adopted IFRS 9 "*Financial Instruments*", thus the above equity investment held by the Group was reclassified to financial asset mandatorily measured at FVTPL which was included in note 23. The fair value of above equity investment on 1 January 2018 amounted to RMB18,328,000.

As at 31 December 2016 and 2017, the Group's available-for-sale investment was pledged to secure certain short-term bank borrowings as set out in note 36.

23. FINANCIAL ASSET MANDATORILY MEASURED AT FVTPL

	As at 31 October 2018 *RMB'000*
Non-current	
Unlisted equity investment	17,962

Upon the adoption of IFRS 9 "*Financial Instruments*" on 1 January 2018, the equity investment recorded as "available-for-sale investment" before 1 January 2018 was subsequently mandatorily measured at FVTPL. The accumulated impact as at 1 January 2018 was recorded as an adjustment to the accumulated losses as at 1 January 2018, and subsequent fair value change of the investment is recorded in "other gains and losses" in note 10. The fair value as at 1 January 2018 and 31 October 2018 has been arrived at on the basis of valuation carried out by GW Financial Advisory Services Limited ("GW Financial Advisory"), a firm of independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experience in the valuation of similar financial instrument. The address of GW Financial Advisory is Room 604, 6/F, Shanghai Industrial Investment Building, 48–62 Hennessy Road, Wan Chai, Hong Kong. The fair value of the unlisted investment is determined by market approach by determining the appraisal value of the equity investment using market multiples of public company and applying a discount on lack of marketability on the unlisted equity investment.

As at 31 October 2018, the Group's financial asset mandatorily measured at FVTPL was pledged to secure certain short-term bank borrowings as set out in note 36.

24. INVENTORIES

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	44,968	26,138	43,886
Work in progress	3,415	5,196	5,486
Finished goods	21,390	46,678	24,095
	69,773	78,012	73,467

No allowance for inventory provision was provided during the Track Record Period.

25. TRADE, BILLS AND OTHER RECEIVABLES

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
The Group			
Trade receivables	45,599	15,027	24,196
Less: allowance for doubtful debts of trade receivables	(3,370)	(922)	(1,463)
	42,229	14,105	22,733
Bills receivables	–	220	–
Prepayments *(note ii)*	9,151	7,910	5,978
Value added tax ("VAT") recoverable	3,957	3,555	2,848
Deferred issue costs	–	–	3,909
Other receivables			
– Due from related companies *(note 41)*	–	325	–
– Others	1,163	460	270
	1,163	785	270
Less: allowance of doubtful debts of other receivables	(773)	(1)	(3)
	390	784	267
Trade, bills and other receivables	55,727	26,574	35,735

Notes:

(i) As at 1 January 2016, the Group's trade receivables amounted to RMB11,792,000 (net of allowance of doubtful debts RMB1,365,000).

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

The Group allows a credit period ranging from 30 to 90 days to its trade customers over the Track Record Period.

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

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	32,717	11,510	19,063
Over 3 months but within 6 months	5,331	904	3,410
Over 6 months but within 1 year	3,015	1,113	249
Over 1 year but within 2 years	740	578	11
Over 2 years	426	–	–
	42,229	14,105	22,733

Aging of trade receivables which are past due but not impaired as at 31 December 2016 and 2017.

	As at 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
Within 3 months	15,752	4,619
Over 3 months but within 6 months	5,275	943
Over 6 months but within 1 year	1,883	39
Over 1 year but within 2 years	718	578
Over 2 years	426	–
	24,054	6,179

As at 31 October 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB7,366,000 which are past due as at the reporting date. Out of the past due balances, RMB3,485,000 has been past due over 3 to 6 months and not in dispute, which is not considered as in default because the management of the Group, according to the historical settlement pattern, industry practice and the Group's historical actual loss experience, had assessed that the probability of settlement from their customers was high in respect of those debtors which had been past due over 3 to 6 months and not in dispute. The management of the Group considered that the risk of default became high and defaulted when those debtors had been past due over 6 months or with disputes to the Group.

The management assessed at each of the reporting date whether there is objective evidence that trade receivables are impaired. The Group would provide impairment for receivables that were considered to be impaired individually based on management assessment performed at the end of each reporting period.

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

(A) Movement of allowance on trades receivables for the two years ended 31 December 2016 and 2017

	As at 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
Balance at the beginning of the year	1,364	3,370
Allowance for doubtful debts	2,034	140
Reversal of allowance of doubtful debts *(note)*	(28)	(1,360)
Bad debts written off	–	(1,228)
Balance at the end of year	3,370	922

(B) Movement of allowance on trade receivables for the ten months ended 31 October 2018

	Not credit impaired	Credit impaired	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance at 31 December 2017			922
Effect arising on adoption of IFRS9			95
Adjusted balance at 1 January 2018			1,017
Transfer to credit impaired	(315)	315	–
ECL	573	–	573
Reversal of ECL *(note)*	(11)	(116)	(127)
Balance at 31 October 2018			1,463

(C) Movement of allowance on other receivables for the two years ended 31 December 2016 and 2017

	As at 31 December	
	2016	2017
	RMB'000	*RMB'000*
Balance at the beginning of the year	1,036	773
Reversal of allowance of doubtful debts *(note)*	(263)	(772)
Balance at the end of year	773	1

(D) Movement of allowance on other receivables for the ten months ended 31 October 2018

	As at 31 October 2018
	RMB'000
Balance at 31 December 2017	1
Effect arising on adoption of IFRS 9	2
Adjusted balance at 1 January 2018 and 31 October 2018	3

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

Included in the balance of allowance for trade and other receivables are individually impaired trade and other receivables with an aggregate balance of RMB4,143,000 and RMB923,000 as at 31 December 2016 and 2017, respectively, are considered as not recoverable with reference to the historical collection experience. The Group does not hold any collateral over these balances.

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

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Analysis of trade and other receivables by currency:			
Denominated in United States dollar ("US$")	30,194	7,275	8,082

	As at 31 December 2017	As at 31 October 2018
	RMB'000	*RMB'000*
The Company		
Other receivables due from related parties *(note 41)*	325	–
Deferred issue costs	–	3,909
	325	3,909

26. RECEIVABLES AT FVTOCI

	As at 31 October 2018
	RMB'000
Receivables at FVTOCI comprise of:	
Bills receivables aged within 3 months presented based on the issue dates of bills receivables	196

27. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2016 and 2017 and 31 October 2018, the Group had transferred to suppliers by endorsing trade receivables supported by bills amounted to RMB54,601,000, RMB25,937,000 and RMB29,893,000, respectively, on a full recourse basis.

As those bills are issued by banks with high credit rating, the directors of the Company had assessed and satisfied that the Group had transferred substantially all of the risks and rewards relating to those bills. The Group had derecognised the full carrying amount of the abovementioned trade receivables supported by bills and the corresponding amount of trade payables.

28. BANK BALANCES AND CASH/RESTRICTED BANK BALANCES

Bank balances and restricted bank balances carried interest at prevailing market interest rates ranging from 0.3% to 0.35% per annum throughout the Track Record Period.

As at 31 December 2016, the Group's restricted bank balances were pledged to banks for issuing bills payables.

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

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Analysis of bank balances and cash and restricted bank balances by currency:			
Denominated in US$	3,570	172	134

29A. TRADE AND OTHER PAYABLES

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
The Group			
Trade payables			
– Due to related parties *(note 41)*	–	197	90
– Due to third parties	44,366	23,603	23,472
	44,366	23,800	23,562
Amount due to related parties *(note 41)*	–	–	553
Deferred income *(note)*	–	–	6,000
Other payables	2,371	378	423
Payable for acquisition of property, plant and equipment	1,153	5,515	5,245
Accrued issue cost and listing expenses	–	–	3,948
Other tax payables	424	1,366	887
Payroll payable	1,591	3,827	1,475
Interest payables	432	521	316
	50,337	35,407	42,409

Note: During the ten months ended 31 October 2018, the Group received a government grant amounted to RMB6,000,000, which is a subsidy conditional and related to the Listing. The government grant will be credited to profit or loss when the Company is successfully listed.

The average credit period on purchases of materials is ranging from 30 days to 90 days upon receipts of the relevant VAT invoices over the Track Record Period.

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

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	13,685	11,891	13,904
Over 3 months but within 6 months	8,000	4,773	5,980
Over 6 months but within 1 year	19,235	2,424	1,870
Over 1 year but within 2 years	3,245	4,256	1,230
Over 2 years	201	456	578
	44,366	23,800	23,562

The Company

The Company's other payables balances as at 31 December 2017 and 31 October 2018 represent amounts due to related parties and/or subsidiaries of the Company as set out in note 41.

29B. CONTRACT LIABILITIES

	As at			As at
	1 January	As at 31 December		31 October
	2016	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts received in advance of:				
– sales of fabric products *(note i)*	15,568	2,161	2,112	6,431
– printing and dyeing service *(note ii)*	39	158	365	3,731
	15,607	2,319	2,477	10,162

Notes:

(i) Revenue from sales of fabric products is recognised at a point in time when the legal title of the finished good is transferred, since only by that time the Group has a present right to payment from the customer.

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

The following table shows how much of the revenue recognised in the Track Record Period relates to brought forward contract liabilities. There was no revenue recognised in the Track Record Period that related to performance obligations that were satisfied in a prior year/period.

Revenue recognised that was included in the contract liability balance at the beginning of the year/period:

	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sales of fabrics products	14,826	2,035	2,035	1,983
Printing and dyeing service	34	135	135	312
	14,860	2,170	2,170	2,295

30. BANK BORROWINGS

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Fixed-rate bank borrowings			
– Secured and guaranteed *(note a)*	76,396	81,832	22,100
– Secured and unguaranteed *(note b)*	–	–	63,690
– Unsecured and guaranteed *(note c)*	48,000	51,495	24,871
Total	124,396	133,327	110,661

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
The carrying amounts of the above bank borrowings are repayable*:			
Within one year	124,396	126,720	96,421
Within more than one year but no more than two years	–	1,980	2,726
Within more than two years but no more than five years	–	4,627	4,903
More than five years	–	–	6,611
	124,396	133,327	110,661
Less: amounts due within one year shown under current liabilities	(124,396)	(126,720)	(96,421)
Amounts shown under non-current liabilities	–	6,607	14,240

* The amounts due are based on the scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	As at 31 December		As at 31 October
	2016	2017	2018
Effective interest rate:			
Fixed-rate borrowings	4.45%–7.20%	4.35%–7.20%	4.33%-7.00%

Notes:

(a) The bank borrowings were either secured by (i) charges over certain property, plant and equipment, prepaid lease payments, investment properties, pledged bank deposits, available-for-sale investment, financial asset mandatorily measured at FVTPL or interest in an associate of the Group (see note 36); (ii) the personal guarantee including Mr. Dai and Ms. Song (see note 41) and other independent personnel; (iii) charges over certain prepaid lease payments of Zhejiang Senlaite Industry and Trade Technology Limited[#] (浙江森萊特工貿科技有限公司), a related party of the Group, which was 63.81% held by Changxing Hengli Investment, ("Zhejiang Senlaite") (see note 41); or (iv) the guarantee from Zhejiang Senlaite (see note 41) and independent third-party companies. All the abovementioned charges over assets and guarantees are provided to the Group at nil consideration.

(b) The bank borrowings were secured by charges over certain property, plant and equipment of the Group and Zhejiang Senlaite. The charges over assets of Zhejiang Senlaite are provided to the Group at nil consideration.

(c) The bank borrowings were guaranteed by (i) the personal guarantee including Mr. Dai and Ms. Song (see note 41) and other independent personnel; and (ii) the corporate guarantee from an independent third party companies. All the above mentioned guarantees are provided to the Group at nil consideration.

As represented by the directors of the Company, the abovementioned guarantees received from and secured assets provided by related parties will be released before or upon Listing.

The Group's bank borrowings that are denominated in currency other than the functional currency of the relevant group entity is set out below:

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Analysis of bank borrowings by currency			
Denominated in US$	5,896	4,032	5,290

[#] *English name is for identification purpose only*

31. FINANCE LEASE OBLIGATIONS

It is the Group's policy to lease certain of its automatic dye ingredient system and other equipment under finance leases. The original lease terms are two years and the corresponding interest rates range from 7.08% to 8.26%, 7.08% and 7.08% per annum for the years ended 31 December 2016 and 2017 and the ten months period ended 31 October 2018, respectively.

	Minimum lease payments			Present value of minimum lease payments		
	As at 31 December 2016	As at 31 December 2017	As at 31 October 2018	As at 31 December 2016	As at 31 December 2017	As at 31 October 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Obligations under finance lease:						
Within one year	2,880	2,800	400	2,343	2,616	395
In the second year	2,800	–	–	2,616	–	–
	5,680	2,800	400	4,959	2,616	395
Less: future finance charges	(721)	(184)	(5)	N/A	N/A	N/A
Present value of lease obligations	4,959	2,616	395	4,959	2,616	395
Amount due for settlement within 12 months (shown under current liabilities)				(2,343)	(2,616)	(395)
Amount due for settlement after 12 months (shown under non-current liabilities)				2,616	–	–

32. DEFERRED TAX ASSETS/LIABILITIES

The following is the analysis of the deferred tax balance for the financial reporting purposes:

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets	1,151	664	1,861
Deferred tax liabilities	–	–	(735)
	1,151	664	1,126

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the Track Record Period:

	Loss allowance for receivables *RMB'000*	**Impairment losses on investment properties** *RMB'000*	**Deferred income** *RMB'000*	**Unrealised profit** *RMB'000*	**Fair value changes on financial asset mandatorily measured at FVTPL** *RMB'000*	**Total** *RMB'000*
At 1 January 2016	407	387	–	–	–	794
Credit (charge) to profit or loss	250	(19)	–	126	–	357
At 31 December 2016	657	368	–	126	–	1,151
(Charge) credit to profit or loss	(469)	(20)	–	2	–	(487)
At 31 December 2017	188	348	–	128	–	664
Effect arising on adoption of IFRS 9	27	–	–	–	(789)	(762)
Adjusted balance at 1 January 2018	215	348	–	128	(789)	(98)
Credit (charge) to profit or loss	105	(15)	900	180	54	1,224
At 31 October 2018	320	333	900	308	(735)	1,126

As at 31 December 2016 and 2017 and 31 October 2018, the Group had deductible temporary differences of RMB22,167,000, RMB22,081,000 and nil arising from the accumulated share of losses from the Group's associate. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at 31 October 2018, deferred taxation has not been provided for in the Historical Financial Information in respect of all temporary differences attributable to undistributed profits of the PRC subsidiaries attributable to owners of the Company amounting to RMB23,511,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There were no other significant unrecognised temporary differences at the end of each reporting period.

33. PAID-IN/SHARE CAPITAL

The paid-in capital of the Group as at 31 December 2016 represented the paid-in capital of Huzhou Narnia attributable to owners of the Company. The paid-in/share capital of the Group as at 31 December 2017 represented the combined paid-in/share capital of the Company and Huzhou Narnia attributable to owners of the Company, while the share capital of the Group as at 31 October 2018 represented the share capital of the Company following the completion of Group Reorganisation.

The Group

	As at 31 December		As at 31 October
	2016	**2017**	**2018**
Name of the entities	*RMB'000*	*RMB'000*	*RMB'000*
The Company *(note i)*	–	325	325
Huzhou Narnia *(note ii)*	80,265	79,247	N/A*
	80,265	79,572	325

Note i:

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

	Par value	**Number of shares**	**Share capital**	**Share capital presented in RMB**
	US$		*US$'000*	*RMB'000*
Authorised and issued				
On 1 September 2017 (date of incorporation), 31 December 2017 and 31 October 2018	1.00	50,000	50	325

Note ii:

	Number of shares	**Paid-in capital**
		RMB'000
Ordinary share of RMB1.00 each		
Authorised, issued and fully paid		
As at 1 January 2016	101,850,000	101,850
Partial disposal *(note a)*	(21,585,000)	(21,585)
As at 31 December 2016	80,265,000	80,265
Partial disposal *(note a)*	(1,018,000)	(1,018)
As at 31 December 2017	79,247,000	79,247

* Upon completion of the Group Reorganisation, Huzhou Narnia became a wholly-owned subsidiary of the Company

Note a: During the year ended 31 December 2016 and 2017, the Controlling Shareholders and Changxing Hengli Investment transferred 21.2% and 1.0% equity interests of Huzhou Narnia in aggregate to a number of independent third parties without losing control, resulting in a reduction of 21,585,000 and 1,018,000 shares of Huzhou Narnia attributable to the Controlling Shareholders.

The new shares rank pari passu with the then existing shares in all respects.

Other than the share allotments above, no other share issuance transaction has been undertaken by the Company since its date of incorporation to 31 October 2018.

34. OPERATING LEASE

The Group as lessee

Minimum lease payments paid under operating leases during the years ended 31 December 2016, 2017 and the ten months ended 31 October 2018 are nil, nil and RMB86,000, respectively.

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		As at 31 October
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	–	360
In the second year to fifth year inclusive	–	–	990
	–	–	1,350

Operating lease payments represent rentals payable by the Group for certain of its equipment. Leases are negotiated with fixed lease term 3 years.

The Group as lessor

At the end of each reporting period, the Group had commitments for future minimum lease receivables under non-cancellable operating leases in respect of rented premises which fall due as follow:

	As at 31 December		As at 31 October
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	120	190
In the second year to fifth year inclusive	–	180	109
	–	300	299

Operating lease receivables represent rentals receivable by the Group for its investment properties. Leases are negotiated with fixed lease term ranging from 2 to 3 years.

35. CAPITAL COMMITMENTS

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure contracted but not – provided for in respect of acquisition of property, plant and equipment	138	1,169	–

36. PLEDGE OF ASSETS

At the end of each reporting period, the Group pledged certain assets as securities for the Group's bank borrowings and banking facilities and Mr. Dai's personal borrowings. Details of the pledged assets and the corresponding carrying amounts are set out below:

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	60,869	55,789	52,121
Prepaid lease payments	7,189	7,019	6,881
Investment properties	10,180	6,748	6,455
Available-for-sale investment	13,064	13,064	–
Financial asset mandatorily measured at FVTPL	–	–	17,962
Interest in an associate	12,836	12,922	–
	104,138	95,542	83,419

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists net debt, which includes bank borrowings, non-trade nature of amounts due to related parties, finance lease obligations, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued paid-in/share capital and reserves.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debts or the redemption of existing debts.

38. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Available-for-sale investment, at cost	13,064	13,064	–
Financial asset mandatorily measured at FVTPL	–	–	17,962
Loans and receivables (including cash and cash equivalent)	52,260	20,171	–
Financial assets measured at amortised cost (including cash and cash equivalent)	–	–	26,163
Receivables at FVTOCI	–	–	196
	65,324	33,235	44,321
Financial liabilities			
Finance lease obligations	4,959	2,616	395
Financial liabilities at amortised cost	172,910	163,633	140,852
	177,869	166,249	141,247

Financial risk management objectives and policies

The major financial instruments include available-for-sale investment, financial asset mandatorily measured at FVTPL, trade, bills and other receivables, receivables at FVTOCI, restricted bank balances, bank balances and cash, trade and other payables, bills payables, bank borrowings and finance lease obligations. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

During the Track Record Period, approximately 45%, 27% and 27%, respectively, of the Group's sales and approximately 0.48%, 0.37% and 0.53%, respectively, of the Group's purchase is denominated in currency other than the functional currency of the relevant group entities making the sale.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currency other than the respective group entities' functional currency at the end of each reporting period are as follows:

	Liabilities			Assets		
	As at 31 December		As at 31 October	As at 31 December		As at 31 October
	2016	2017	2018	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
US$	6,236	4,450	5,410	33,772	7,449	8,216

The Group currently does not have a foreign currency hedging policy as the management of the Group considers that the foreign exchange risk exposure of the Group is minimal. The Group will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a 10% decrease in the functional currency of the relevant group entities against the foreign currency. 10% is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit for the year/period where the functional currency of relevant group entities weakening against the relevant foreign currency. For a 10% strengthen of the functional currency of relevant group entities, there would be an equal and opposite impact on the profit after tax.

	Year ended 31 December		Ten months ended 31 October
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
US$	2,341	255	239

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year/period end exposure does not reflect the exposure during the year/period.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and finance lease obligations (see notes 30 and 31 for details). The Group currently does not have any interest rate hedging policy. The management of the Group monitors the Group's exposure on an on-going basis and will consider hedging interest rate risk should the need arises.

The Group is also exposed to cash flow interest rate risk in relation to floating-rate restricted bank balance and bank balances.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

In the opinion of the management of the Company, no sensitivity analysis is prepared for the interest rate risk since the impact to the Group's post-tax profit for the year/period during the Track Record Period is not significant.

Other price risk

The Group's investment in an unlisted equity investment is classified as available-for-sale investment carried at cost as at 31 December 2016 and 2017, thus it is not subjected to other price risk.

As at 31 October 2018, the Group's investment in an unlisted equity investment is classified at FVTPL. If the price of the respective unlisted equity investment had been 5% higher/lower, the profit after tax for the ten months ended 31 October 2018 would increase/decrease by RMB763,000.

Credit risk

Credit risk refers to the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group considers all elements of credit risk exposure such as counterparty default risk and sector risk for risk management purposes.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

In the opinion of the directors of the Company, the risk of default in payment of the bills receivable is low because all bills receivable are issued and guaranteed by reputable PRC banks.

The credit risk on bank balances is limited because the counterparties are banks with good reputations.

The Group has concentration of credit risk as 2.58%, nil and nil of the total trade receivables was due from the Group's largest customer, and as 42.19%, 25.09% and 9.67% of the total trade receivables was due from the five largest customers, as at 31 December 2016 and 2017 and 31 October 2018, respectively.

Group's exposure to credit risk after adoption of IFRS 9

After the adoption of the IFRS 9, in addition to the credit risk limit management and other mitigation measures as described above, the Group monitors all financial assets, except for trade receivables, that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12m ECL.

Trade receivables

For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items on an individual basis for customer with significant balance and/or collectively by using a provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. For the ten months ended 31 October 2018, none of the trade receivables that had been written off as the directors of the Company assessed that no counterparties were in severe financial difficulty and the prospect of recovery was still realistic.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk gradings to categorise exposures according to their degree of risk of default.

The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group determines the ECL on these items by (i) assessed individually for certain debtors with disputes and/or (ii) using a provision matrix, estimated based on historical credit loss experience on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the end of each reporting period.

The following table details the risk profile of trade receivables:

As at 31 October 2018

	Trade receivables – day past due				
	Not past due	**Within 3 months**	**3–6 months**	**Over 6 months (credit impaired)**	**Total**
	(not credit impaired)				
Weighted average expected credit loss rate	1.84%	2.08%	2.15%	N/A*	
Total gross carrying amount *(RMB'000)*	16,830	2,597	3,485	1,284	24,196
Lifetime ECL *(RMB'000)*	(310)	(54)	(75)	(1,024)	(1,463)
	16,520	2,543	3,410	260	22,733

* These credit impaired debtors were assessed individually.

The following table shows the Group's credit risk grading framework in respect of financial assets other than trade receivables:

Category	**Description**	**Basis for recognising ECL**
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12m ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

Other receivables

For other receivables, the Group has applied the general approach in IFRS 9 to measure the loss allowance approximate to such at 12m ECL, since the directors of the Company did not expect any significant increase in credit risk.

Bank balances, restricted bank balances and receivables at FVTOCI

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

Liquidity risk

The management of the Group monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are positive and closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available and shareholders' capital contributions.

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

	Weighted average effective interest rate *%*	**On demand and within one year** *RMB'000*	**Over 1 year but not more than 2 years** *RMB'000*	**Total undiscounted cash flows** *RMB'000*	**Carrying amount** *RMB'000*
At 31 December 2016					
Trade and other payables	–	48,322	–	48,322	48,322
Bills payables	–	192	–	192	192
Bank borrowings – at fixed rate	5.87%	127,707	–	127,707	124,396
Finance lease obligations	7.08%	2,880	2,800	5,680	4,959
TOTAL		179,101	2,800	181,901	177,869

	Weighted average effective interest rate *%*	**On demand and within one year** *RMB'000*	**Over 1 year but not more than 2 years** *RMB'000*	**Over 2 years but not more than 5 years** *RMB'000*	**Total undiscounted cash flows** *RMB'000*	**Carrying amount** *RMB'000*
At 31 December 2017						
Trade and other payables	–	30,214	–	–	30,214	30,214
Dividends payable	–	92	–	–	92	92
Bank borrowings – at fixed rate	5.74%	130,121	2,251	4,879	137,251	133,327
Finance lease obligations	7.08%	2,800	–	–	2,800	2,616
TOTAL		163,227	2,251	4,879	170,357	166,249

	Weighted average effective interest rate	On demand and within one year	Over 1 year but not more than 2 years	Over 2 years but not more than 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 October 2018							
Trade and other payables	–	34,047	–	–	–	34,047	34,047
Dividends payable	–	92	–	–	–	92	92
Bank borrowings							
– at fixed rate	6.13%	101,807	3,489	6,863	8,717	120,876	110,661
Finance lease obligations	7.08%	400	–	–	–	400	395
TOTAL		136,346	3,489	6,863	8,717	155,415	145,195

Fair value measurements of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statements of financial position approximate to their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

Upon adoption of IFRS 9, the Group's investment in an unlisted equity investment amounted was accounted for as financial asset mandatorily measured at FVTPL as at 1 January 2018 and 31 October 2018 of which is under level 3 fair value hierarchy. The fair values as at 1 January 2018 and 31 October 2018 have been arrived at on the basis of valuation carried out by GW Financial Advisory. Its fair value was determined by market approach by determining the appraisal value of the asset using market multiples of public company and applying a discount on lack of marketability of the unlisted equity investment. The significant unobservable input to the market approach being the market multiples of comparable companies and discount on lack of marketability. The higher the market multiples of comparable companies, the higher the fair value of the unlisted equity investment will be. A 5% increase/decrease in the market multiples of comparable companies, holding all other variables constant, would increase/decrease the carrying amount of the unlisted equity investment by RMB898,000 as at 31 October 2018. The higher the discount on lack of marketability, the lower the fair value of the unlisted equity investment will be. A 5% increase/decrease in the discount on lack of marketability, holding all other variables constant, would decrease/increase the carrying amount of the unlisted equity investment by RMB1,382,000 as at 31 October 2018.

The Group's receivables at FVTOCI are under level 2 fair value hierarchy. Their fair values were determined by discounted cash flows method at which the estimated future cash flows are discounted at market interest rate that reflects the time value to the dates of settlement.

Reconciliation of Level 3 fair value measurements

The following table represents the changes in Level 3 unlisted equity investment:

As at 31 October 2018

	Financial asset mandatorily measured at FVTPL *RMB'000*
At 31 December 2017	13,064
Effect arising on adoption of IFRS 9	5,264
Adjusted balance at 1 January 2018	18,328
Total loss recognised in profit or loss	(366)
At 31 October 2018	17,962

Of the total loss for the ten months ended 31 October 2018 included in profit or loss, the amount of RMB366,000 relates to the decrease in fair value in respect of financial asset mandatorily measured at FVTPL held as at 31 October 2018. Fair value loss on financial asset mandatorily measured at FVTPL is included in "other gains and losses" in note 10.

39. FINANCIAL INFORMATION OF THE COMPANY

(a) Investment in a subsidiary

	As at 31 December 2017 *RMB'000*	As at 31 October 2018 *RMB'000*
Unlisted shares, at cost	329	84,206

Investment in a subsidiary represents the investment cost in Autumn Sky.

(b) Movements of the Company's reserves

	Other reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
On 1 September 2017 (date of incorporation) and 31 December 2017	–	–	–
Capital contribution received from the Controlling Shareholders arising from Group Reorganisation	83,552	–	83,552
Loss and total comprehensive expenses for the period	–	(12,098)	(12,098)
At 31 October 2018	83,552	(12,098)	71,454

40. RECONCILIATION OF ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's assets and liabilities arising from financing activities, including both cash and non-cash changes. Assets and liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings *RMB'000 (note)*	Bank acceptance bills financing payable *RMB'000*	Consideration payable *RMB'000*	Capital reduction payable *RMB'000*	Accrued issue cost *RMB'000*	Amounts due (from) to related parties *RMB'000*	Dividend payables *RMB'000*	Interest payables *RMB'000*	Finance lease obligations *RMB'000*	Total *RMB'000*
At 1 January 2016	115,202	–	–	–	–	–	–	206	5,565	120,973
Financing cash flows	8,685	348	–	–	–	–	–	(7,323)	(1,341)	369
Non-cash changes										
Accrued finance cost *(note 11)*	–	–	–	–	–	–	–	7,549	735	8,284
Transaction of bank acceptance bills	–	(348)	–	–	–	–	–	–	–	(348)
Foreign exchange translation	509	–	–	–	–	–	–	–	–	509
At 31 December 2016	124,396	–	–	–	–	–	–	432	4,959	129,787
Financing cash flows	9,399	(14,720)	–	–	–	–	(25,676)	(7,576)	(2,880)	(41,453)
Non-cash changes										
Accrued finance cost *(note 11)*	–	–	–	–	–	–	–	7,665	537	8,202
Dividends *(note 15)*	–	–	–	–	–	–	25,768	–	–	25,768
Transaction of bank acceptance bills	–	14,720	–	–	–	–	–	–	–	14,720
Issue shares	–	–	–	–	–	(325)	–	–	–	(325)
Foreign exchange translation	(468)	–	–	–	–	–	–	–	–	(468)
At 31 December 2017	133,327	–	–	–	–	(325)	92	521	2,616	136,231
Financing cash flows	(23,001)	–	(83,877)	(35,000)	(2,922)	878	–	(6,241)	(2,400)	(152,563)
Non-cash changes										
Issue costs accrued	–	–	–	–	3,909	–	–	–	–	3,909
Accrued finance cost *(note 11)*	–	–	–	–	–	–	–	6,036	179	6,215
Foreign exchange translation	335	–	–	–	–	–	–	–	–	335
Capital reduction	–	–	–	35,000	–	–	–	–	–	35,000
Consideration payable for the acquisition of Huzhou Narnia	–	–	83,877	–	–	–	–	–	–	83,877
At 31 October 2018	110,661	–	–	–	987	553	92	316	395	113,004
(Unaudited)										
At 1 January 2017	124,396	–	–	–	–	–	–	432	4,959	129,787
Financing cash flows	13,589	(14,720)	–	–	–	–	(15,584)	(6,316)	(2,400)	(25,431)
Non-cash changes										
Accrued finance cost *(note 11)*	–	–	–	–	–	–	–	6,249	471	6,720
Dividends *(note 15)*	–	–	–	–	–	–	15,584	–	–	15,584
Transaction of bank acceptance bills	–	14,720	–	–	–	–	–	–	–	14,720
Issue shares	–	–	–	–	–	(325)	–	–	–	(325)
Foreign exchange translation	(394)	–	–	–	–	–	–	–	–	(394)
At 31 October 2017	137,591	–	–	–	–	(325)	–	365	3,030	140,661

41. RELATED PARTY DISCLOSURES

Related party transactions

Saved as disclosed elsewhere in this report, the Company had also entered into the following significant related party transactions during the Track Record Period.

	Nature of transactions	Year ended 31 December 2016 *RMB'000*	Year ended 31 December 2017 *RMB'000*	Ten months ended 31 October 2017 *RMB'000* (unaudited)	Ten months ended 31 October 2018 *RMB'000*
Zhejiang Senlaite	Rental expenses	–	–	–	86
Zhejiang Jinbakai Plant Products Changxing Base Co., Ltd.# (浙江金巴開植物製品長興基地有限公司) ("Zhejiang Jinbakai") *(note)*	Expense of steam and electricity for production	–	559	467	864
		–	559	467	950

Note: The directors of the Company consider Zhejiang Jinbakai is a related party as Ms. Song, who is one of the Controlling Shareholders of the Group, is a key management personnel of Zhejiang Jinbakai.

During the Track Record Period, certain of the Group's assets were pledged to secure short-term bank borrowings granted to Mr. Dai with the amount of RMB3,000,000 from 6 February 2018 to 15 January 2019. On 15 August 2018, Mr. Dai had fully settled such bank borrowings. Therefore, on the same date, the Group's pledged assets granted in relation to such bank borrowings are fully released.

Guarantees and pledged of assets provided by related parties

At 31 December 2016 and 2017 and 31 October 2018, the Controlling Shareholders and/or Zhejiang Senlaite had provided guarantees and/or securities to banks in respect of the Group's bank borrowings amounted to RMB76,396,000, RMB81,832,000 and RMB39,260,000, respectively. As represented by the directors of the Company, the guarantees and/or securities granted to banks provided by the Controlling Shareholders and/or Zhejiang Senlaite as at 31 October 2018 would be released prior to the Listing.

English name is for identification purpose only.

Compensation of key management personnel

	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Basic salaries	278	285	238	315
Bonus	–	111	–	–
Retirement benefits scheme contributions	77	79	66	75
	355	475	304	390

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

Related party balances

Amounts due from related parties – non-trade nature

	The Group and the Company			
	As at 1 January 2016	**As at 31 December 2016**	**2017**	**As at 31 October 2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Spring Sea *(note i)*	–	–	192	–
Summer Land *(note i)*	–	–	133	–
	–	–	325	–

For amount due from a related party which is controlled by a director of the Company which is non-trade in nature, the maximum amounts outstanding during the Track Record Period are as follows:

	The Group and the Company		
	Year ended 31 December 2016	**2017**	**Ten months ended 31 October 2018**
	RMB'000	*RMB'000*	*RMB'000*
Spring Sea *(note i)*	–	192	192

Amounts due to related parties – non-trade nature

	The Group		
	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Spring Sea *(note i)*	–	–	433
Summer Land *(note i)*	–	–	120
	–	–	553

	The Company		
	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Autumn Sky	–	329	329
Spring Sea *(note i)*	–	–	433
Summer Land *(note i)*	–	–	120
Huzhou Narnia	–	–	15,555
	–	329	16,437

As represented by the directors of the Company, the amounts due to related parties of non-trade nature as at 31 October 2018 would be fully settled prior to the Listing.

Amounts due to related party – trade nature

	The Group		
	As at 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Zhejiang Senlaite	–	–	90
Zhejiang Jinbakai	–	197	–
	–	197	90

No general credit terms are granted to the amounts due to a related party of trade in nature. The following is an aged analysis of amounts due to a related party of trade in nature presented based on the receipts of goods by the Group at the end of each reporting period:

	The Group		
	Year ended 31 December		As at 31 October
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	–	197	90

The amounts due from/to related parties which are non-trade in nature are unsecured, interest free and repayable on demand.

Note:

(i) The two entities are shareholders of the Company.

42. PARTICULARS OF SUBSIDIARIES

As at the date of this report, particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place and date of establishment	Paid-in/ share capital	Shareholding/equity interest attributable to owner of the Company as at 31 December 2016	31 December 2017	31 October 2018	Date of this report	Principal activity	Notes
Autumn Sky	British Virgin Islands ("BVI") 16 October 2017	USD$50,000	N/A	77.81%	100%	100%	Investment holding	b
Hengye Development	Hong Kong 30 October 2017	HK$10,000	N/A	77.81%	100%	100%	Investment holding	f
Huzhou Narnia Industry Co., Ltd	the PRC 5 August 2002	RMB66,850,000	78.81%	77.81%	100%	100%	Manufacture and sale of fabrics and provision of printing and dyeing services	c
Narnia International	Hong Kong 25 July 2013	USD$8,000,000	78.81%	77.81%	100%	100%	Investment holding	d
Changxing Seashore	the PRC 23 October 2012	USD$8,000,000	78.81%	77.81%	100%	100%	Textile manufacturing	e

Notes:

a Each of the Company and its subsidiaries has adopted 31 December as their financial year end date.

b No audited financial statements have been prepared since its the date of incorporation as there is no such statutory requirement.

c The financial statements of Huzhou Narnia for the years ended 31 December 2016 and 2017 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by Asia Pacific (Group) CPAs (special general partnership) (亞太(集團)會計師事務所(特殊普通合夥)), a certified public accountant registered in the PRC. No audited financial statements have been prepared for the ten months period ended 31 October 2018.

d The statutory financial statements of Narnia International for the years ended 31 December 2016 and 2017 were prepared in accordance with HKFRS for Private Entities issued by the HKICPA and were audited by SBC CPA LIMITED, a certified public accountant registered in Hong Kong. No audited financial statements have been prepared for the ten months period ended 31 October 2018.

e The financial statements of Changxing Seashore for the year ended 31 December 2016 and 2017 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by Asia Pasic (Group) CPAs (special general partnership) (亞太(集團)會計師事務所(特殊普通合夥)), a certified public accountant registered in the PRC. No audited financial statements have been prepared for the ten months period ended 31 October 2018.

f No statutory audited financial statements of Hengye Development have been prepared for the period ended 31 December 2017 as it is newly incorporated and the statutory financial statements have not yet been due to issue.

None of the subsidiaries of the Group had issued any debt securities during the Track Record Period.

43. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2016 and ten months ended 31 October 2017, the Group obtained additional source of financing by acquiring bank acceptance bills amounted to RMB29,982,000 and RMB14,820,000, respectively, from independent third parties and used these bills transferred to suppliers for settling trade payables with the same amounts. Subsequently, the Group used the bank acceptance bills received from customers with carrying amount of RMB30,330,000 with a cash refund of RMB348,000 during the year ended 31 December 2016, and a combination of the bank acceptance bills received from customers with carrying amount of RMB100,000 and cash of RMB14,720,000 during the ten months ended 31 October 2017, to settle the respective acquired bank acceptance bills. Since 2 May 2017, the Group ceased the abovementioned bills financing arrangement.

44. DIRECTORS' REMUNERATION

Under the arrangement currently in force, each of the aggregate amount of the directors' remuneration and benefits in kind for the year ending 31 December 2018 is estimated to be approximately RMB261,000 (excluding discretionary bonus).

45. EVENTS AFTER THE REPORTING PERIOD

The following events took place subsequent to the end of the reporting period:

(i) On 18 December 2018, the Group entered into an sale and purchase agreement with an independent third party to the Group to sell the Group's entire equity interests in financial assets mandatorily measured at FVTPL for a consideration of RMB20,000,000. In accordance with the sale and purchase agreement, the transaction is expected to be completed after the repayment of bank borrowings secured during the year ending 31 December 2019. Up to the date of this report, the transaction has not been completed.

(ii) In contemplation of the Share Offer and the Capitalisation Issue, each share of US$1 was subdivided into 1,000 shares of US$0.001 each pursuant to the written resolutions of the shareholders passed on 29 January 2019. The Company then remained owned as to approximately 78.81% by Spring Sea and approximately 21.19% by Summer Land immediately after the sub-division of shares.

(iii) The management of the Group was authorised to capitalise an amount of US$550,000 standing to the credit of the share premium account of the Company by applying such sum towards to pay up in full at par a total of 550,000,000 shares for allotment and issue, immediately prior to the share offer, to the shareholders whose names appear on the register of members of the Company as of 29 January 2019, on a pro rata basis.

(iv) The share option scheme was conditionally adopted by the resolutions in writing of the Shareholders of the Company passed on 29 January 2019. The principal terms of the share option schemes are set out in the section headed "Statutory and General Information" in Appendix V to the Prospectus.

46. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 October 2018 and up to the date of this report.

The information set out in this Appendix does not form part of the accountants' report on the historical financial information of the Group for each of the two years ended 31 December 2017 and the ten months ended 31 October 2018 (the "Track Record Period") (the "Accountants' Report") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company which has been prepared in accordance with paragraph 7.31 of the GEM Listing Rules is for the purpose of illustrating the effect of the proposed public offer and placing of the Company's shares (the "Share Offer") as if it had taken place on 31 October 2018. The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Share Offer been completed on 31 October 2018 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 October 2018 as shown in the Accountants' Report of the Group as set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 October 2018 *RMB'000 (Note 1)*	Estimated net proceeds from the Share Offer *RMB'000 (Note 2)*	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 October 2018 *RMB'000*	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 October 2018 *RMB (Note 3)*	*HK$ (Note 4)*
Based on the share offer price of HK$0.40 per share	92,214	49,235	141,449	0.18	0.21
Based on the share offer price of HK$0.80 per share	92,214	111,487	203,701	0.25	0.30

Notes:

(1) The consolidated net tangible assets of the Group attributable to owners of the Company as at 31 October 2018 is arrived at after deducting intangible assets of RMB807,000 from the audited consolidated net assets of RMB93,021,000 attributable to owners of the Company as at 31 October 2018 as extracted from the Accountants' Report set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the issue of the new shares pursuant to the proposed Share Offer are based on 200,000,000 new shares at the Offer Price of lower limit and higher limit of HK$0.40 and HK$0.80 per new share, respectively, after deduction of the underwriting commissions and fees and other related expenses, other than those expenses which had been recognised in profit or loss prior to 31 October 2018.

The calculation of such estimated net proceeds does not take into account of any shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and the Share Option Scheme or any shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase shares as referred to in the paragraph headed "A. Further information about our Group – 6. Written resolutions of all Shareholders passed on 29 January 2019" or "7. Repurchase of the Share" in Appendix V to this prospectus. The estimated net proceeds from the proposed Share Offer are converted from Hong Kong dollars into Renminbi ("RMB") at an exchange rate of HK$1.1695 to RMB1.00 on the Latest Practicable Date. No representation is made that Hong Kong dollars amounts have been, could have been or could be converted to RMB, or vice versa, at that rate or at any other rates or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 October 2018 per Share is calculated based on 800,000,000 shares in issue assuming that the proposed Share Offer and the Capitalisation Issue had been completed on 31 October 2018. It does not take into account of any share which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase shares as referred to in the sections headed "A. Further information about our Group – 6. Written resolution of all shareholders passed on 29 January 2019" or "7. Repurchase of the Share" in Appendix V to this prospectus.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of RMB1.00 to HK$1.1695 on the Latest Practicable Date. No representation is made that the RMB amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

(5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 October 2018 to reflect any trading result or other transactions of the Group entered into subsequent to 31 October 2018.

B. UNAUDITED PRO FORMA ESTIMATED PROFIT PER SHARE

The following unaudited pro forma estimated profit per share for the year ended 31 December 2018 has been prepared in accordance with paragraph 7.31(1) of the GEM Listing Rules on the basis set out in the notes below for the purpose of illustrating the effect of the proposed Share Offer, as if it had taken place on 1 January 2018. The unaudited pro forma estimated profit per share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the proposed Share Offer.

Estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2018[(1)]	no less than RMB39 million
Unaudited pro forma estimated profit per Share for the year ended 31 December 2018[(2)]	no less than RMB4.92 cents

Notes:

(1) The bases on which the above profit estimate has been prepared are summarised in Appendix III to this prospectus.

(2) The calculation of the unaudited pro forma estimated profit per Share is based on the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2018 and assuming a weighted average of 795,796,000 Shares in issue during the year ended 31 December 2018 and the proposed Share Offer and the Capitalisation Issue had been completed on 1 January 2018 without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase shares as referred to in the paragraphs headed "A. Further information about our Group – 6. Written resolutions of all Shareholders passed on 29 January 2019" or "7. Repurchase of the Share" in Appendix V to this prospectus. The estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2018 has not taken into account any interest income that would have been earned if the proceeds from the Share Offer had been received by the Company on 1 January 2018.

C. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Narnia (Hong Kong) Group Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Narnia (Hong Kong) Group Company Limited (formerly known as Narnia (HongKong) Group Co., Ltd.) (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") prepared by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 October 2018, the unaudited pro forma estimated profit per Share for the year ended 31 December 2018 and related notes as set out on pages II-1 to II-3 of Appendix II to the prospectus issued by the Company dated 13 February 2019 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-3 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed public offer and placing of the shares of the Company (the "Share Offer") on the Group's financial position as at 31 October 2018 and the Group's estimated earnings per Share for the year ended 31 December 2018 as if the proposed Share Offer had taken place at 31 October 2018 and 1 January 2018, respectively. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, on which an accountants' report set out in Appendix I to the Prospectus has been published and information about the estimate of the consolidated profit of the Group attributable to owners of the Company for the year ended 31 December 2018, on which no auditor's report or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 October 2018 or 1 January 2018 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the

compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

13 February 2019

Our estimate of the consolidated profit attributable to owners of our Company for the year ended 31 December 2018 is set out in "Financial information – Profit estimate for the year ended 31 December 2018" of this prospectus.

(A) PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2018

Our Directors have prepared the estimate of the consolidated profit of our Group for the year ended 31 December 2018 based on the audited consolidated results of our Group for the ten months ended 31 October 2018 and the unaudited consolidated results based on the management accounts of our Group for the two months ended 31 December 2018. The estimate has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by our Group as summarised in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Profit estimate for the year ended 31 December 2018

Estimated consolidated profit attributable to owners of our Company	not less than RMB39 million

Note: The estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2018 has taken into account of our estimated listing expenses of approximately RMB13 million incurred during the year ended 31 December 2018.

(B) LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter, prepared for the inclusion in this prospectus, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in relation to our Group's profit estimate for the year ended 31 December 2018.

Deloitte. 德勤

13 February 2019

The Board Directors
Narnia (Hong Kong) Group Company Limited
PO Box 1350, Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

C/O 19th Floor
Three Exchange Square
8 Connaught Place
Central
Hong Kong

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

Dear Sirs,

Narnia (Hong Kong) Group Company Limited (the "Company")

Profit Estimate for the Year Ended 31 December 2018

We refer to the estimate of the consolidated profit of the Company and its subsidiaries (collectively referred to as the "Group") attributable to owners of the Company for the year ended 31 December 2018 ("the Profit Estimate") set forth in the section headed "Appendix III – Profit estimate for the year ended 31 December 2018" in the prospectus of the Company dated 13 February 2019 (the "Prospectus").

Directors' Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the audited consolidated results of the Group for the ten months ended 31 October 2018 and the unaudited consolidated results based on the management accounts of the Group for the two months ended 31 December 2018.

The Company's directors are solely responsible for the Profit Estimate.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors of the Company and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors of the Company as set out in Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 13 February 2019, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(C) LETTER FROM SOLE SPONSOR

The following is the text of letter, prepared for inclusion in this prospectus by the Sole Sponsor, in connection with the estimate of the consolidated profit attributable to equity holders of the Company for the year ended 31 December 2018.

The Directors
Narnia (Hong Kong) Group Company Limited
13 February 2019

Dear Sirs,

We refer to the estimated consolidated profit of Narnia (Hong Kong) Group Company Limited (the "Company") and its subsidiaries (together the "Group") attributable to the equity holders of the Company for the year ended 31 December 2018 (the "Profit Estimate") as set out in the prospectus issued by the Company dated 13 February 2019 (the "Prospectus").

The Profit Estimate, for which you as the directors of the Company (the "Directors") are solely responsible, has been prepared based on (i) the audited consolidated results of the Group for the ten months ended 31 October 2018; and (ii) the unaudited consolidated results of the Group based on its unaudited management accounts for the two months ended 31 December 2018.

We have discussed with you the bases upon which the Profit Estimate has been made. We have also considered the letter dated 13 February 2019 addressed to you and us from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Profit Estimate, for which the Directors are solely responsible, has been made after due and careful enquiry.

For and on behalf of
Cinda International Capital Limited

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Islands company law.

Our Company's was incorporated in the Cayman Islands as an exempted company with limited liability on 1 September 2017 under the Companies Law. Our Company's constitutional documents consist of our Amended and Restated Memorandum of Association (**Memorandum**) and our Amended and Restated Articles of Association (**Articles**).

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of our Company is limited and that the objects for which our Company is established are unrestricted (and therefore include acting as an investment company), and that our Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since our Company is an exempted company, that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

(b) By special resolution our Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 29 January 2019. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) Classes of shares

The share capital of our Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting,

but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a member being a corporation, by our duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

Our Company may, by an ordinary resolution of our members: (a) increase our share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of our share capital into shares of larger or smaller amount than our existing shares; (c) divide our unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide our shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of our share capital.

(iv) Transfer of shares

Subject to the Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or our nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of our Company in respect of that share.

The Board may, in our absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any

branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in our absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which our Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to our Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the GEM Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of our Company to purchase our own shares

Our Company may purchase our own shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where our Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to the ownership of shares in our Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced our Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares together with (if the Board shall in our discretion so require)

interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of our Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of our Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of our Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in our Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of our Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our

Company) and our Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(aa) resign;

(bb) dies;

(cc) is declared to be of unsound mind and the Board resolves that his office be vacated;

(dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) he is prohibited from being or ceases to be a director by operation of law;

(ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;

(gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of our body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of our powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or

otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of our Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of our Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and our Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in our absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of our Company or any of our subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of our subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting, but if such power or act is regulated by our Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

Any Director who, at the request of our Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on our own or jointly in concurrence or agreement with subsidiaries of our Company or companies with which our Company is associated in business, or may make contributions out of our Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with our Company or any of our subsidiaries) and former employees of our Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by our Company in general meeting.

(vii) Loans and provision of security for loans to Directors

Our Company shall not directly or indirectly make a loan to a Director or a director of any holding company of our Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of our Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with our Company or any of our subsidiaries

With the exception of the office of auditor of our Company, a Director may hold any other office or place of profit with our Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with our Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to our Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

(aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of our subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of our subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares, debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal or arrangement concerning the benefit of employees of our Company or any of our subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of our Company or any of our subsidiaries and does not provide

in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of our Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate our meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and our Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of our Company may only be altered or amended, and the name of our Company may only be changed, with the sanction of a special resolution of our Company.

(d) Meetings of member

(i) Special and ordinary resolutions

A special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of our Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by our duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of our Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by our duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the GEM Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

(A) at least two members;

(B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(C) a member or members holding shares in our Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of our Company, such person or persons may be authorised as it thinks fit to act as our representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to

have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where our Company has knowledge that any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

Our Company must hold an annual general meeting each year other than the year of our Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Requisition of general meetings

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(v) Notices of meetings and business to be conducted

An annual general meeting of our Company shall be called by at least 21 days' notice in writing, and any other general meeting of our Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by our Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify our Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the GEM Listing Rules, a notice or document may also be served or delivered by our Company to any member by electronic means.

Although a meeting of our Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of an annual general meeting, by all members of our Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in our Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(vi) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by our duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vii) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one

proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by our duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by our Company, and of the assets and liabilities of our Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of our Company's affairs and to show and explain our transactions.

The books of accounts of our Company shall be kept at the head office of our Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of our Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or our Company in general meeting.

The Board shall from time to time cause to be prepared and laid before our Company at our annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive

notices of general meetings of our Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), our Company may send summarised financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

Our Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by our Company in general meeting or by the Board if authority is so delegated by the members. The members may, at a general meeting remove the auditor(s) by a special resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The auditors shall audit the financial statements of our Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

Our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

(iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Where the Board or our Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, our Company may by ordinary resolution in respect of any one particular dividend of our Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of our Company

until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

Our Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of our Company is listed on the Stock Exchange, any member may inspect any register of members of our Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if our Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of our Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if our Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

(ii) if our Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be

issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If our Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law, divide among the members in specie or kind the whole or any part of the assets of our Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

Our Company was incorporated in the Cayman Islands as an exempted company on 1 September 2017 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as our Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

Under Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of our Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Companies Law, our Company is required to maintain at our registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the

expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, our Company's legal advisers on Cayman Islands law, has sent to our Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 1 September 2017.

Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 8 August 2018 and our principal place of business in Hong Kong is 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong. In connection with such registration, our Company has appointed Mr. Chan Hon Wan of Flat B, 27th Floor, Block 9, Tung Chung Crescent, 2 Mei Tung Street, Tung Chung, Lantau, New Territories, Hong Kong as our authorised representative for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, it is subject to the Companies Law and our constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix IV to this prospectus.

2. Changes in the share capital of our Company

(a) As at the date of incorporation, the authorised share capital of our Company was US$50,000 divided into 50,000 Shares with a par value of US$1 each. On the same date, one subscriber Share in our Company with a par value of US$1 was allotted and issued as fully paid to a nominee subscriber. On the same date, the said one Share was transferred to Spring Sea for a consideration of US$1 and our Company further allotted and issued 39,403 Shares and 10,596 Shares with a par value of US$1 each credited as fully paid to Spring Sea and Summer Land, respectively. Upon completion of the above transfer and share issue, our Company became owned as to approximately 78.81% by Spring Sea and approximately 21.19% by Summer Land.

(b) On 29 January 2019, each Share with par value of US$1 was subdivided into 1,000 Shares with par value of US$0.001 each and the authorised share capital of our Company was increased from US$50,000 divided into 50,000,000 Shares with par value of US$0.001 each to US$2,000,000 divided into 2,000,000,000 Shares with par value of US$0.001 each by the creation of an additional 1,950,000,000 Shares with par value of US$0.001 each.

Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), the authorised share capital of our Company will be US$2,000,000 divided into 2,000,000,000 Shares, of which 800,000,000 Shares will be allotted and issued, fully paid or credited as fully paid and 1,200,000,000 Shares will remain unissued.

Other than pursuant to the general mandate to allot and issue Shares as referred to in the paragraphs headed "6. Written resolutions of all Shareholders passed on 29 January 2019" and "7. Repurchase of the Shares" under this appendix, the exercise of the Offer Size Adjustment Option or the options which may be granted under the Share Option Scheme, our Directors do not have any present intention to allot and issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in our Company's share capital since its incorporation.

3. Reorganisation

Our Group underwent the Reorganisation in preparation for the Listing. Further details are set out in the section headed "History, Development and Reorganisation – Reorganisation" in this prospectus.

4. Changes in share capital of the subsidiaries of our Company

Our Company's subsidiaries are listed in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed "History, Development and Reorganisation – Reorganisation" in this prospectus and the capital reduction of Huzhou Narnia in March 2018 disclosed in the section headed "History, Development and Reorganisation – Corporate Development – Huzhou Narnia" in this prospectus, there has been no alteration in the share capital or registered capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

5. Further information about our Group's PRC establishment

We have interests in the registered capital of two PRC subsidiaries. A summary of the corporate information of such PRC subsidiaries as at the Latest Practicable Date is set out as follows:

(a). 湖州納尼亞實業有限公司 (Huzhou Narnia Industry Co., Ltd.)

(i)	Date of establishment:	5 August 2002
(ii)	Nature:	Wholly foreign-owned enterprise
(iii)	Registered Owner:	Hengye Development
(iv)	Total investment:	RMB150 million
(v)	Registered Capital:	RMB66.85 million
(vi)	Attributable interest to our Group:	100%
(vii)	Term of operation:	5 August 2002 to 4 August 2052

(b). 長興濱里實業有限公司 (Changxing Seashore Industrial Co., Ltd.)

(i)	Date of establishment:	23 October 2012
(ii)	Nature:	Wholly foreign-owned enterprise
(iii)	Registered Owner:	Narnia International
(iv)	Total investment:	US$10 million
(v)	Registered Capital:	US$8 million
(vi)	Attributable interest to our Group:	100%
(vii)	Term of operation:	23 October 2012 to 22 October 2027

6. Written resolutions of all Shareholders passed on 29 January 2019

Written resolutions of all Shareholders were passed on 29 January 2019 approving, among other things, the following:

(a) the Memorandum and the Articles were adopted as the memorandum of association and articles of association of our Company;

(b) each issued and unissued Share with par value of US$1 each in the share capital of our Company was sub-divided into 1,000 Shares with par value of US$0.001 each, all of which shall rank equally in all respect with the each other;

(c) the authorised share capital of our Company was increased from US$50,000 divided into 50,000,000 Shares with par value of US$0.001 each to US$2,000,000 divided into 2,000,000,000 Shares with par value of US$0.001 each by the creation of additional 1,950,000,000 Shares with par value of US$0.001 each, all of which shall rank equally in all respects with the existing Shares; and

(d) conditional upon (i) the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be allotted and issued as mentioned in this prospectus including the Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme; (ii) the Offer Price having been duly determined and the execution and delivery of the Underwriting Agreements on the dates as specified in this prospectus; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement (or any conditions as specified in this prospectus), in each case on or before the dates and times specified in the

Underwriting Agreements (unless and to the extent such conditions are validly waived before such dates and times) and in any event not later than the date falling 30 days after the date of this prospectus:

(i) the Share Offer and the grant of the Offer Size Adjustment Option was approved and our Directors were authorised to (1) allot and issue the Offer Shares pursuant to the Share Offer and the Shares as may be required to be allotted and issued upon the exercise of the Offer Size Adjustment Option subject to the terms and conditions stated in this prospectus; (2) implement the Share Offer and the Listing; and (3) do all things and execute all documents in connection with or incidental to the Share Offer and the Listing with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;

(ii) conditional upon the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise the amount of US$550,000 from the amount standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par a total of 550,000,000 Shares for allotment and issue to our Shareholders whose names appear on the register of members of our Company at the close of business on 29 January 2019, or as each of them may direct in writing, in proportion (or as near as possible without involving the issue of fractions of Shares) to their then existing respective shareholdings in our Company and the Shares to be allotted and issued pursuant to this resolution shall rank equally in all respects with the then existing Shares;

(iii) the rules of the Share Option Scheme were approved and adopted and our Board or any committee thereof established by our Board was authorised, at its sole discretion, to (1) administer the Share Option Scheme; (2) modify or amend the rules of the Share Option Scheme from time to time as may be acceptable or not objected to by the Stock Exchange; (3) grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of subscription rights attaching to any option(s) granted thereunder; and (4) take all such actions as it considers necessary or desirable to implement or give effect to the Share Option Scheme;

(iv) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment and issue of Shares in lieu of the whole or in part of any cash dividend in accordance with the Articles, or upon the exercise of any option that may be granted under the Share Option Scheme or under the Share Offer and the Capitalisation Issue or upon the exercise of the Offer Size

Adjustment Option, Shares in aggregate not exceeding the sum of (1) 20% of the total number of Share in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), and (2) the total number of Shares in issue which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders in general meeting varying, revoking or renewing the mandate granted to our Directors, whichever occurs first;

(v) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase, on the Stock Exchange and/or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with all applicable laws and requirements of GEM (or of such other stock exchange), Shares in aggregate not exceeding 10% of the total number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders in general meeting varying, revoking or renewing the mandate granted to our Directors, whichever occurs first; and

(vi) a general unconditional mandate mentioned in sub-paragraph (iv) above was extended by the addition to the total number of Shares in issue which may be allotted or agreed (conditionally or unconditionally) to be allotted or issued by our Directors pursuant to such general mandate of an amount representing the total number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares as referred to in sub-paragraph (v) above, provided that such extended amount shall not exceed 10% of the total number of Shares immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme).

7. Repurchase of the Shares

This paragraph sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of our Shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions of all Shareholders passed on 29 January 2019, a general unconditional mandate (the "**Repurchase Mandate**") was granted to our Directors to exercise all powers of our Company to repurchase, on the Stock Exchange and/or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with all applicable laws and requirements of GEM (or of such other stock exchange), Shares in aggregate not exceeding 10% of the total number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders in general meeting varying, revoking or renewing the mandate granted to our Directors, whichever occurs first.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles, the GEM Listing Rules and the Companies Law. A listed company must not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchase by our Company may be made out of profits of our Company, out of share premium, or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits of our Company, out of our Company's share premium account before or at the time the Shares are repurchased, or, subject to the Companies Law, out of capital.

(iii) Trading restrictions

A company is authorised to repurchase on the Stock Exchange or on any other stock exchange recognised by the SFC and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the total number of shares of that company in issue at the date of the passing of the relevant resolution granting the repurchase mandate.

A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on the Stock Exchange or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange.

In addition, a company is prohibited from making securities repurchase on GEM if the result of the repurchases would be that the number of the listed securities in hands of the public would be below the relevant prescribed minimum percentage for that company as required and determined by the Stock Exchange.

A company shall not purchase its shares on the Stock Exchange if the purchase price is 5% or more higher than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(iv) Status of repurchased shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

Under the Companies Law, a company's repurchased shares may be treated as cancelled and, if so cancelled, the amount of that company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(v) Suspension of repurchase

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (A) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing

Rules) for the approval of a listed company's results for any year, half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and (B) the deadline for the listed company to announce its results for any year, half-year or quarter-year period under the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the GEM Listing Rules.

(vi) Reporting requirements

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:00 a.m. on the following business day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on the Stock Exchange or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

(vii) Connected parties

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person which includes a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell his securities to the company.

(b) Reasons for Repurchase

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to be granted a general mandate from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of Repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the GEM Listing Rules and the Companies Law.

On the basis of our Group's current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our Group's working capital and/or its gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our Group's working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company or our subsidiaries. Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Articles and the applicable laws of the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in voting rights increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code as a result of any repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

Our Company has not made any repurchases of our own securities since its incorporation.

No core connected person has notified our Company that he has a present intention to sell the Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company or any of the members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

(a) an equity transfer agreement entered into between Huzhou Narnia as transferor and Changxing Transport Investment Group Co., Ltd.* (長興交通投資集團有限公司) as transferee dated 30 March 2018 in relation to the sale and purchase of 23.335% of the equity interest in Changxing Hengli Financing at a consideration of RMB34,950,000;

(b) an equity transfer agreement entered into between Changxing Hengli Investment as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 63.8071% of the equity interest in Huzhou Narnia at a consideration of RMB53,519,294;

(c) an equity transfer agreement entered into between Mr. Dai as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 9% of the equity interest in Huzhou Narnia at a consideration of RMB7,548,907;

(d) an equity transfer agreement entered into between Ms. Wang Yun as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 6.6981% of the equity interest in Huzhou Narnia at a consideration of RMB5,618,136;

(e) an equity transfer agreement entered into between Mr. Zhang Weiming as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 5.5965% of the equity interest in Huzhou Narnia at a consideration of RMB4,694,133;

(f) an equity transfer agreement entered into between Ms. Song as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 5% of the equity interest in Huzhou Narnia at a consideration of RMB4,193,837;

(g) an equity transfer agreement entered into between Ms. Fang Fang as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 4.9092% of the equity interest in Huzhou Narnia at a consideration of RMB4,117,661;

(h) an equity transfer agreement entered into between Ms. Zhang Yuzhen as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 1.3255% of the equity interest in Huzhou Narnia at a consideration of RMB1,111,768;

(i) an equity transfer agreement entered into between Ms. Yu Aidi as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 0.6971% of the equity interest in Huzhou Narnia at a consideration of RMB584,708;

(j) an equity transfer agreement entered into between Ms. Chen Jiao as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 0.6637% of the equity interest in Huzhou Narnia at a consideration of RMB556,708;

(k) an equity transfer agreement entered into between Ms. Zhang Miaofen as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 0.6549% of the equity interest in Huzhou Narnia at a consideration of RMB549,296;

(l) an equity transfer agreement entered into between Ms. Wu Aixia as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 0.6480% of the equity interest in Huzhou Narnia at a consideration of RMB543,531;

(m) an equity transfer agreement entered into between Skyhope as transferor and Hengye Development as transferee dated 20 April 2018 in relation to the sale and purchase of 1% of the equity interest in Huzhou Narnia at a consideration of RMB838,767;

(n) a sale and purchase agreement entered into between Huzhou Narnia as transferor and Zhejiang Hongchen Printing and Dyeing Co., Ltd.* (浙江弘晨印染科技股份有限公司) as transferee dated 18 December 2018 in relation to the sale and purchase of 7,565,794 shares in Changxing Rural Commercial Bank at a consideration of RMB20,000,000;

(o) the Deed of Indemnity;

(p) the deed of non-competition dated 12 February 2019 given by our Controlling Shareholders in favour of our Company (for itself and as trustee for our subsidiaries from time to time) regarding certain non-competition undertakings; and

(q) the Public Offer Underwriting Agreement.

2. Intellectual property rights

(a) Trademarks

(i) As at the Latest Practicable Date, we had registered the following trademark in Hong Kong which is, in the opinion of our Directors, material to our Group's business:

No.	Trademark	Owner	Class	Trademark number	Expiry date
1.	NARNIA GROUP	Huzhou Narnia	24	302291058	20 June 2022

(ii) As at the Latest Practicable Date, we had registered the following trademarks in the PRC which are, in the opinion of our Directors, material to our Group's business:

No.	Trademark	Owner	Class	Trademark number	Expiry date
1.		Huzhou Narnia	23	21371018	13 November 2027
2.		Huzhou Narnia	24	10834976	27 July 2023
3.	HENGXIN	Huzhou Narnia	24	4939484	27 September 2019
4.	滨里 SEASHORE	Changxing Seashore	24	14392834	27 May 2025

(b) Domain names

As at the Latest Practicable Date, our Group had registered the following domain names which are, in the opinion of our Directors, material to our business:

Domain name	Registered owner	Expiry date
www.narniatex.com	Huzhou Narnia	24 April 2023
www.narnia.hk	Our Company	27 July 2023

(c) Patents

As at the Latest Practicable Date, we had registered the following patents, and the following patents are, in the opinion of our Directors, material to our business:

No.	Patent	Registered Owner	Type	Place of Registration	Patent Number	Expiry Date
1.	Antibiotic non-ironing superfine cotton fibre dimension shirt surface fabric of washing (一種抗菌免燙超細滌棉纖維襯衣面料)	Huzhou Narnia	Utility model	PRC	201720913762.X	25 July 2027
2.	Ultraviolet resistance, fire-retardant silk-like surface fabric (一種抗紫外線、阻燃仿真絲面料)	Huzhou Narnia	Utility model	PRC	201720915220.6	25 July 2027
3.	Gentle comfortable super imitative cotton sheet surface material (一種柔爽超仿棉床單面料)	Huzhou Narnia	Utility model	PRC	201720915242.2	25 July 2027
4.	Pass through drenched gas bedding fabric (一種透濕透氣床品面料)	Huzhou Narnia	Utility model	PRC	201720915245.6	25 July 2027
5.	Surface fabric spins in magnetism anion man (一種磁性負離子家紡面料)	Huzhou Narnia	Utility model	PRC	201720915251.1	25 July 2027

No.	Patent	Registered Owner	Type	Place of Registration	Patent Number	Expiry Date
6.	Fire-retardant for bed product surface fabric of water and oil proofing (一種防水防油阻燃床品用面料)	Huzhou Narnia	Utility model	PRC	201620652673.X	22 June 2026
7.	A efficient water conservation device for on dyeing machine (一種用於染色機上的高效節水裝置)	Huzhou Narnia	Utility model	PRC	201620658505.1	22 June 2026
8.	High-efficient dyeing machine of economising on water (一種節水高效染色機)	Huzhou Narnia	Utility model	PRC	201620659003.0	22 June 2026
9.	Novel antistatic imitative numb dark window curtain surface fabric (一種新型抗靜電仿麻遮光窗簾面料)	Huzhou Narnia	Utility model	PRC	201620659147.6	22 June 2026
10.	Dyeing machine waste water cyclic utilisation device and method (一種染色機廢水循環利用裝置及其方法)	Huzhou Narnia	Invention	PRC	201410362928.4	27 July 2034
11.	Dyeing jar heat preservation device (一種染色缸保溫裝置)	Huzhou Narnia	Invention	PRC	201410329720.2	10 July 2034
12.	Method for manufacturing novel flame-retardant negative ion curtain fabric (一種阻燃、負離子窗簾面料的製造方法)	Huzhou Narnia	Invention	PRC	201410230492.3	26 May 2034

No.	Patent	Registered Owner	Type	Place of Registration	Patent Number	Expiry Date
13.	Wetting type static purification device for exhaust gas of multi-set combination sloped pipe setting machine (多台組合斜管式定型機廢氣濕式靜電淨化裝置)	Huzhou Narnia	Invention	PRC	201310643372.1	2 December 2033

As at the Latest Practicable Date, we had made the following patent applications, and each registration vetting process is pending:

No.	Patent	Applicant	Type	Place of registration	Application no.
1.	An anti UV and antistatic satin fabric (一種抗紫外防靜電色丁面料)	Huzhou Narnia	Utility model	PRC	201821297065.7
2.	A far infrared thermal insulation plain weave fabric (一種遠紅外保暖平紋呢面料)	Huzhou Narnia	Utility model	PRC	201821297605.1
3.	A hygroscopic and quick drying silk fabric (一種吸濕快乾仿真絲面料)	Huzhou Narnia	Utility model	PRC	201821297611.7
4.	A flame retardant and antifouling satin fabric (一種阻燃防污色丁面料)	Huzhou Narnia	Utility model	PRC	201821298366.1

No.	Patent	Applicant	Type	Place of registration	Application no.
5.	A high temperature dyeing machine for chemical fibre fabrics at high temperature (一種化纖織物高溫環保染色機)	Huzhou Narnia	Utility model	PRC	201821298379.9
6.	The preparation process and process equipment for optical medium treatment agent for home textile fabrics (一種用於家紡面料的光觸媒處理劑的製備工藝及工藝設備)	Huzhou Narnia	Invention	PRC	201811064633.3
7.	A far infrared self-heating quilt cover fabric (一種遠紅外自發熱被套面料)	Huzhou Narnia	Utility model	PRC	201821964888.0

(d) Software Copyrights

As at the Latest Practicable Date, we had registered the following software copyrights in PRC which are, in the opinion of our Directors, material to our business:

No.	Owner	Name of copyright	Registration number	Copyright Certificate number	Initial publication date
1	Huzhou Narnia	Automatic weighing control system V1.0 (自動稱量控制系統V1.0)	2013SR144146	軟著登字第0649908號	13 December 2012
2	Huzhou Narnia	Automatic dripping control system V1.0 (自動滴液控制系統V1.0)	2013SR144624	軟著登字第0650386號	4 December 2012

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) Interests and short positions of our Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and our Company's associated corporations

Immediately after the completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme), the interests or short positions of each Director and chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange once the Shares are listed, will be as follows:

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

Notes:

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

2. Our Company will be directly owned as to approximately 59.11% by Spring Sea immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme). Spring Sea is owned as to approximately 53.98% by Mr. Dai and approximately 46.02% by Ms. Song. Under the SFO, Mr. Dai and Ms. Song are deemed to be interested in the same number of Shares held by Spring Sea.

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

None of our Directors or chief executive of our Company will immediately after completion of Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme) have any disclosable interests other than those as disclosed above.

(b) Interests and/or short positions of the Substantial Shareholders under the SFO

Please refer to the section headed "Substantial and Significant Shareholders" in this prospectus for details of the persons (other than a Director or a chief executive of our Company)/corporations who/which will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or who/which is, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group.

Our Directors are not aware of any persons who will immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme) have a notifiable interest (for the purposes of the SFO) in the Shares or, having such a notifiable interest, have any short positions (within the meaning of the SFO) in the Shares, other than as disclosed at (b) above.

2. Particulars of Directors' Service Agreements and Letters of Appointment

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company for an initial fixed term of three years commencing from the Listing Date. The term of service shall be renewed and extended automatically by three years on the

expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto giving at least three months' written notice.

(b) Independent non-executive Directors

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for an initial fixed term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto giving at least one month's written notice.

Save as disclosed in this prospectus, none of our Directors has or is proposed to have entered into any service agreement or letter of appointment with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without the payment of compensation other than statutory compensation).

3. Remuneration of our Directors

During each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, the aggregate emoluments paid and benefits in kind (excluding discretionary bonus and contributions to pension schemes) granted to our Directors by any member of our Group were approximately RMB138,000, RMB145,000 and RMB165,000, respectively.

During each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, the aggregate of contributions to pension schemes for our Directors were approximately RMB55,000, RMB56,000 and RMB48,000, respectively.

During each of the two years ended 31 December 2017 and the ten months ended 31 October 2018, the aggregate discretionary bonus paid to our Directors by any member of our Group were approximately nil, RMB55,000 and nil, respectively.

Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus(es)) payable by any member of our Group to, and benefits in kind receivable by our Directors for the year ended 31 December 2018 are expected to be approximately RMB261,000.

None of our Directors or any past director(s) of any member of our Group has been paid any sum of money for the two years ended 31 December 2017 and the ten months ended 31 October 2018 (a) as an inducement to join or upon joining our Company or (b) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emolument for the two years ended 31 December 2017 and the ten months ended 31 October 2018.

Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefit or bonus or other fringe benefits) payable by any member of our Group to each of our Directors will be as follows:

Executive Directors	*RMB*
Mr. Dai	300,000
Ms. Song	200,000
Mr. Wang Yongkang	150,000

Independent non-executive Directors	*HK$*
Dr. Liu Bo	100,000
Mr. Leung Ka Tin	100,000
Mr. Yu Chung Leung	100,000

Each of our executive Directors and independent non-executive Directors is entitled to reimbursement of all necessary and reasonable out-of-pocket expenses properly incurred in relation to all business and affairs carried out by our Group from time to time or for providing services to us or executing their functions in relation to our business and operations.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable in respect of the two years ended 31 December 2017 and the ten months ended 31 October 2018 by any member of our Group to our Directors.

4. Related Party Transactions

Details of the related party transactions are set out under Note 41 to the Accountants' Report in Appendix I to this prospectus.

5. Disclaimers

Save as disclosed in this prospectus:

(a) none of our Directors or the experts named in the paragraph headed "E. Other information – 7. Qualifications of experts" in this appendix below has been directly or indirectly interested in the promotion of, or in any asset which has been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) none of our Directors nor the experts named in the paragraph headed "E. Other information – 7. Qualifications of experts" in this appendix below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group; and

(c) none of the experts named in the paragraph headed "E. Other information – 7. Qualifications of experts" in this appendix below has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

D. SHARE OPTION SCHEME

1. Summary of terms of the Share Option Scheme

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to the eligible participants as incentives or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which any member of our Group holds any equity interest (the "**Invested Entity**"). As at the Latest Practicable Date, there was no Invested Entity other than members of our Group, and our Group has not identified any potential Invested Entity for investment.

(b) Who may join

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

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

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

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

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

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

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

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

and, for the purpose of the Share Option Scheme, the offer for the grant of an option may be made to any company wholly owned by one or more eligible participants.

For the avoidance of doubt, the grant of any option by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of eligible participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the eligible participants to an offer under the Share Option Scheme shall be determined by our Directors from time to time on the basis of our Directors' opinion as to such eligible participant's contribution to the development and growth of our Group.

(c) Maximum number of Shares

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

(ii) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the total number of Shares (assuming the Offer Size Adjustment Option and the Share Option Scheme are not exercised) in issue at the time dealings in the Shares first commence on the Stock Exchange, being 80,000,000 Shares (the "**General Scheme Limit**").

(iii) Subject to (i) above and without prejudice to (iv) below, our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Group shall not exceed 10% of the Shares in issue (assuming the Offer Size Adjustment Option and the Share Option Scheme are not exercised) as at the date of the approval of the limit and for the purpose of calculating the limit, options (including options outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of our Group) previously granted under the Share Option Scheme and any other share option schemes of our Group will not be counted.

(iv) Subject to (i) above and without prejudice to (iii) above, our Company may seek separate shareholders' approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit, or if applicable, the extended limit referred to in (iii) above to eligible participants specifically identified by our Company before such approval is sought.

(d) Maximum entitlement of each eligible participant

Subject to (e) below, the total number of Shares issued and which may fall to be issued upon exercise of the options under the Share Option Scheme and the options granted under any other share option schemes of our Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options under the Share Option Scheme to a grantee would result in the Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option scheme of our Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by our Shareholders in general meeting with such grantees and their close associates (or his associates if the participant is a connected person) abstaining from voting.

(e) Grant of options to core connected persons

(i) Without prejudice to (ii) below, the making of an offer under the Share Option Scheme to any Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of an option under the Share Option Scheme).

(ii) Without prejudice to (i) above, where any grant of options under the Share Option Scheme to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options under the Share Option Scheme already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(1) representing in aggregate over 0.1% of the Shares in issue; and

(2) having an aggregate value, based on the closing price of the Shares on the offer date of each grant, in excess of HK$5 million;

such further grant of options must be approved by our Shareholders in general meeting. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

For the purpose of seeking the approval of our Shareholders under paragraphs (c), (d) and (e) above, our Company must send a circular to our Shareholders containing the information required under the GEM Listing Rules and where the GEM Listing Rules shall so require, the vote at our Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the GEM Listing Rules abstaining from voting.

(f) Time of acceptance and exercise of an option

An offer under the Share Option Scheme shall remain open for acceptance by the eligible participants concerned (and by no other person) for a period of up to 21 days from the date, which must be a business day, on which the offer is made.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Share Option Scheme; and (ii) the date falling 10 years from the offer date of that option.

An offer shall have been accepted by an eligible participant in respect of all Shares which are offered to such eligible participant when the duplicate letter comprising acceptance of the offer duly signed by the eligible participant together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

Any offer may be accepted by an eligible participant in respect of less than the number of Shares which are offered provided that it is accepted in respect of a board lot for dealings in the Shares on GEM or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such eligible participant and received by our Company together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

(g) Performance targets

Unless otherwise determined by our Directors and stated in the offer to a grantee, a grantee is not required to hold an option for any minimum period nor achieve any performance targets before the exercise of an option granted to him.

(h) Subscription price for Shares

The subscription price in respect of any option shall, subject to any adjustments made pursuant to paragraph(s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and

(iii) the nominal value of a Share.

(i) Ranking of Shares

Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank equally in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered in the register of members of our Company as the holder thereof.

(j) Restrictions on the time of grant of options

For so long as the Shares are listed on the Stock Exchange, an offer may not be made after inside information has come to our Company's knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's result for any year, half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for our Company to publish announcements of our results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, no offer for the grant of an option may be made.

Our Directors may not make any offer to an eligible participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares under such circumstances as prescribed by the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(k) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(l) Rights of ceasing employment

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds specified in (n) below before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination. The date of cessation or termination as aforesaid shall be the last day on which the grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

(m) Rights on death, ill-health or retirement

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s) or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the

date of cessation of employment which date shall be the last day on which the grantee was at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

(n) Rights on dismissal

In respect of a grantee who is an eligible employee, the date on which the grantee ceases to be an eligible employee by reason of termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group into disrepute), such option (to the extent not already exercised) shall lapse automatically and shall not in any event be exercisable on or after the date of cessation to be an eligible employee.

(o) Rights on breach of contracts

In respect of a grantee other than an eligible employee, the date on which our Directors shall at their absolute discretion determine that (i)(1) such grantee has committed any breach of any contract entered into between such grantee on the one part and our Group or any Invested Entity on the other part; or (2) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) such grantee could no longer make any contribution to the growth and development of our Group by reason of the cession of its relations with our Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in sub-paragraph (i)(1) to (3).

(p) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of the Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, the grantee shall, notwithstanding any other terms on which his option was granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be. Subject to the above, an option will lapse

automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(q) Rights on winding-up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation equally with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(r) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

(i) the provisions of paragraphs (l), (m), (n) and (o) above shall apply to the grantee and to the option granted to such grantee, mutatis mutandis, as if such option had been granted to the relevant eligible participant, and such option shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs (l), (m), (n) and (o) above shall occur with respect to the relevant eligible participant; and

(ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(s) Adjustment of the subscription price

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation issue, rights issue, consolidation or sub-division of the Shares or reduction of the share capital of our Company, then, in any such case our Company shall instruct the auditors or an independent financial adviser to certify

in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular grantee, to:

(i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relate(s) (insofar as it is/they are unexercised); and/or

(ii) the subscription price of any option; and/or

(iii) (unless the relevant grantee elects to waive such adjustment) the number of Shares comprised in an option or which remain comprised in an option,

and an adjustment as so certified by the auditors or such independent financial adviser shall be made, provided that:

(i) any such adjustment shall give the grantee the same proportion of the issued share capital of our Company (as interpreted in accordance with the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which such grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment;

(ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

(iii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and

(iv) any such adjustment shall be made in compliance with the GEM Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time.

In respect of any adjustment referred to above, other than any adjustment made on a capitalisation issue, the auditors or such independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the relevant provisions of the GEM Listing Rules and the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes.

(t) Cancellation of options

Subject to the provisions in the Share Option Scheme and the GEM Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.

Where our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by our Shareholders pursuant to paragraph (c)(ii) or (c)(iv) above.

(u) Termination of the Share Option Scheme

Our Company by an ordinary resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) Rights are personal to grantee

An option shall be personal to the grantee and shall not be transferable or assignable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do. Any breach of the foregoing by a grantee shall entitle our Company to cancel any option granted to such grantee to the extent not already exercised.

(w) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of (i) the expiry of the option period in respect of such option; (ii) the expiry of the periods or dates referred to in paragraphs (l), (m), (n), (o), (p), (q) and (r) above; or (iii) the date on which our Directors exercise our Company's right to cancel the option by reason of paragraph (v) above.

(x) Others

(i) The Share Option Scheme is conditional upon:

(1) the Stock Exchange granting the listing of and permission to deal in such number of Shares representing the General Scheme Limit to be allotted and issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme; and

(2) the passing of the necessary resolution to approve and adopt the Share Option Scheme in general meeting or by way of written resolution of our Shareholders.

(ii) The provisions of the Share Option Scheme relating to the matters governed by Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of a resolution of our Company in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the holders of the Shares under the Articles for the time being for a variation of the rights attached to the Shares.

(iii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by our Shareholders except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(iv) The terms of the Share Option Scheme and/or any options amended must comply with the applicable requirements of the GEM Listing Rules.

(v) Any change to the authority of our Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

2. Present status of the Share Option Scheme

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be allotted and issued within the General Scheme Limit pursuant to the exercise of options that may be granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnities

The Controlling Shareholders (collectively, the "**Indemnifiers**") have, under the Deed of Indemnity, given joint and several indemnities to our Company (for ourselves and as trustee for and on behalf of our subsidiaries) in connection with, among others:

(a) the amount of any and all taxation (including estate duty) falling on any member of our Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received, enter into (or deemed to be so earned, accrued, received or enter into) or occurring on or before the date on which the Share Offer becomes unconditional, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company, including any and all taxation resulting from the receipt by any member of our Group of any amount paid by the Indemnifiers under the Deed of Indemnity; and/or

(b) all reasonable costs (including all legal and other professional costs), expenses or other liabilities which any member of our Group may incur in connection with:

(i) the investigation, assessment, settlement or contesting of any taxation claim;

(ii) the settlement of any claim under the Deed of Indemnity;

(iii) any legal proceedings in which any member of our Group claims under or in respect of the Deed of Indemnity and in which judgement is given for any member of our Group; or

(iv) the enforcement of any such settlement or judgement.

(c) all costs, expenses or other liabilities suffered or incurred by any members of our Group as a result of or in connection with the non-compliance incidents by any members of our Group as described in the section headed "Business – Legal proceedings and compliance – Non-compliant bill financing" in this prospectus or in connection with any other non-compliance by any members of our Group which has occurred at any time before Listing.

The Indemnifiers shall be under no liability under the Deed of Indemnity, among other things:

(a) to the extent that provision has been made for such taxation in the audited consolidated financial statements of the members of our Group for the two years ended 31 December 2017 and the ten months ended 31 October 2018;

(b) to the extent that such taxation claim arises or is incurred as a consequence of any retrospective change in the law or regulations or practice by the Inland Revenue Department of Hong Kong or any other tax or government authorities in any part of the world coming into force after the date on which the Share Offer becomes unconditional or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the date on which the Share Offer becomes unconditional with retrospective effect; or

(c) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) which is carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the date on which the Share Offer becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands and the BVI is likely to fall on our Group, and the estate duty under the laws of Hong Kong has been abolished.

2. Litigation

To the best knowledge of our Directors, as at the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation, arbitration or claims of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any member of our Group, that would have a material adverse effect on our financial condition and results of operations.

3. Application for listing of Shares

We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be allotted and issued as mentioned in this prospectus. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

4. Compliance Adviser

In accordance with the requirements of the GEM Listing Rules, our Company has appointed Cinda International as our compliance adviser to provide advisory services to our Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

5. Preliminary expenses

The estimated preliminary expenses to the incorporation of our Company were approximately RMB38,000 and have been payable by our Company.

6. Promoter

We do not have any promoter.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice in this prospectus:

Name	Qualifications
Cinda International Capital Limited	A licenced corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Appleby	Cayman Islands legal advisers
AllBright Law Offices	PRC legal advisers
Deloitte Touche Tohmatsu	Certified public accountants
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

8. Consents of experts

Each of the experts referred to above has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be), all of which are dated the date of this prospectus, and reference to its name included in the form and context in which it respectively appears in this prospectus.

9. Fees of the Sole Sponsor

The Sole Sponsor will receive a sponsorship, financial advisory and documentation fee of a total amount of HK$5.5 million in relation to the Listing and will be reimbursed for their expenses.

10. Independence of the Sole Sponsor

Neither the Sole Sponsor nor any of its close associates has accrued any material benefit as a result of the successful outcome of the Share Offer, other than the following:

(a) by way of sponsorship, financial advisory and documentation fee to be paid to the Sole Sponsor for acting as the sponsor of the Listing; and

(b) by way of the compliance advisory fee to be paid to Cinda International as our Company's compliance adviser pursuant to the requirements under Rule 6A.19 of the GEM Listing Rules.

No director or employee of the Sole Sponsor who is involved in providing advice to our Company has or may have, as a result of the Listing, any interest in any class of securities of our Company or any of our subsidiaries. None of the directors and employees of the Sole Sponsor has any directorship in our Company or any member of our Group. The Sole Sponsor is independent from our Group under Rule 6A.07 of the GEM Listing Rules.

11. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

12. Miscellaneous

Save as disclosed herein:

(a) within the two years immediately preceding the date of this prospectus:

  (i) no share or loan capital of our Company or any of our subsidiaries has been allotted and issued, agree to be allotted and issued or is proposed to be allotted and issued as fully or partly paid either for cash or for a consideration other than cash;

  (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;

(b) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares;

(c) no founder, management or deferred shares of our Company have been allotted and issued or agreed to be allotted and issued;

(d) no share, warrant or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(e) our Company has no outstanding convertible debt securities;

(f) there is no arrangement under which future dividends are waived or agreed to be waived; and

(g) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 24 months immediately preceding the date of this prospectus.

13. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance on the exemption under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

1. copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

2. the written consents referred to in the paragraph headed "E. Other information – 8. Consents of experts" in Appendix V to this prospectus; and

3. copies of the material contracts referred to in the paragraph headed "B. Further information about the business of our Group – 1. Summary of material contracts" in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of ONC Lawyers at 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

1. the Memorandum of Association and the Articles of Association;

2. the Accountants' Report from Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;

3. the audited financial statements of our Group for the two years ended 31 December 2017 and the ten months ended 31 October 2018;

4. the report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;

5. the letters relating to the profit estimate from Deloitte Touche Tohmatsu and the Sole Sponsor, the text of which is set out in Appendix III to this prospectus;

6. the letter of advice prepared by Appleby summarising certain aspects of Cayman Islands company law as referred to in Appendix IV to this prospectus;

7. the Companies Law;

8. the rules of the Share Option Scheme;

9. the material contracts referred to in the paragraph headed "B. Further Information about the business of our Group – 1. Summary of material contracts" in Appendix V to this prospectus;

10. the service agreements and letters of appointment referred to in the paragraph headed "C. Further information about our Directors and Substantial Shareholders – 2. Particulars of Directors' service agreements and letters of appointment" in Appendix V to this prospectus;

11. the written consents referred to in the paragraph headed "E. Other information – 8. Consents of experts" in Appendix V to this prospectus;

12. the PRC legal opinions issued by our PRC Legal Advisers; and

13. the industry report prepared by Frost & Sullivan.

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