



**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

The background features a complex, abstract graphic composed of overlapping, wavy, semi-transparent lines in shades of light blue and lavender. Scattered throughout these lines are several solid-colored circles in blue and red, creating a sense of movement and depth.

2019
FIRST QUARTERLY REPORT

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



CORPORATE INFORMATION

Directors

Executive Directors

Mr. Dai Shunhua (*Chairman*)
Ms. Song Xiaoying
Mr. Wang Yongkang

Independent Non-executive Directors

Mr. Leung Ka Tin
Dr. Liu Bo
Mr. Yu Chung Leung

Audit Committee Members

Mr. Yu Chung Leung (*Chairman*)
Dr. Liu Bo
Mr. Leung Ka Tin

Nomination Committee Members

Dr. Liu Bo (*Chairman*)
Mr. Leung Ka Tin
Mr. Yu Chung Leung

Remuneration Committee Members

Mr. Mr. Leung Ka Tin (*Chairman*)
Dr. Liu Bo
Mr. Yu Chung Leung

Company Secretary

Mr. Chan Hon Wan (*HKICPA*)

Compliance Officer

Mr. Dai Shunhua

Authorised Representatives

Mr. Chan Hon Wan (*HKICPA*)
Mr. Dai Shunhua

Registered Office

PO Box 1350, Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Headquarters and Principal Place of Business in PRC

Jiapu Economic Development Area
Changxing County
Huzhou City
Zhejiang Province
PRC

Company's Website

www.narnia.hk

Principal Place of Business in Hong Kong

19th Floor, Three Exchange Square
8 Connaught Place, Central
Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Legal Adviser

ONC Lawyers
19th Floor, Three Exchange Square
8 Connaught Place, Central
Hong Kong

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Compliance Adviser

Cinda International Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

Principal Bankers

Zhejiang Changxing Rural Commercial
Bank Company Limited
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

Stock Code

8607

RESULTS HIGHLIGHTS

For the three months ended 31 March 2019, the financial highlights were as follows:

- Revenue increased by 34.5% to approximately RMB78,789,000 (2018: approximately RMB58,574,000).
- Gross profit increased by 42.5% to approximately RMB15,771,000 (2018: approximately RMB11,064,000).
- Gross profit margin was approximately 20.0% (2018: approximately 18.9%).
- Operating profit excluding other income, other gains and losses; and listing expenses for the three months ended 31 March 2019 increased by 198.8% to approximately RMB5,967,000 (2018: approximately RMB1,997,000).
- Profit for the three months ended 31 March 2019 attributable to owners of the Company decreased by 34.8% to approximately RMB14,021,000 (2018: approximately RMB21,504,000).
- Basic earnings per share decreased by 20.3% to approximately RMB2.08 cents (2018: approximately RMB2.61 cents).
- The Board did not recommend the payment of any dividends for the three months ended 31 March 2019 (2018: nil).

UNAUDITED CONSOLIDATED FIRST QUARTERLY RESULTS OF 2019

The board (the “Board”) of Directors of the Company is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2019 (the “Reporting Period”) and selected explanatory notes, together with the comparative figures of the corresponding period in 2018 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2019

		Three months ended	
		31 March	
	<i>Note</i>	2019	2018
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3	78,789	58,574
Cost of sales and services		(63,018)	(47,510)
Gross profit		15,771	11,064
Other income	5	14,174	3,371
Other gains and losses	6	(256)	22,269
Selling and distribution expenses		(439)	(727)
Administrative expenses		(3,013)	(4,754)
Research expenditure		(2,389)	(1,500)
Listing expenses		(5,864)	–
Other expenses		(100)	(205)
Share of result of an associate		–	724
Finance costs	7	(1,591)	(2,303)
Profit before tax		16,293	27,939
Income tax expense	8	(2,272)	(302)
Profit and total comprehensive income for the period		14,021	27,637
Profit and total comprehensive income for the period attributable to:			
– Owners of the Company		14,021	21,504
– Non-controlling interests		–	6,133
		14,021	27,637
Earnings per share			
– Basic (<i>RMB cents</i>)	9	2.08	2.61
Dividends	10	–	–

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2019

	(Unaudited)							
	Attributable to owners of the Company							
	Paid-in/ share capital	Share premium	Statutory reserve	Other reserve	(Accumulated losses)/ retained profits	Sub-total	Non- controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	79,572	-	4,030	7,462	(25,625)	65,439	18,666	84,105
Adoption of IFRS 9	-	-	-	-	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
Profit and total comprehensive income for the period	-	-	-	-	21,504	21,504	6,133	27,637
Capital injection into the Company	325	-	-	-	-	325	-	325
Equity transaction with non-controlling interests	(27,558)	-	-	-	73	(27,485)	(7,840)	(35,325)
At 31 March 2018	52,339	-	4,030	7,462	(1,943)	61,888	17,560	79,448
At 1 January 2019	325	-	7,105	76,116	14,022	97,568	-	97,568
Profit and total comprehensive income for the period	-	-	-	-	14,021	14,021	-	14,021
Issue of shares by capitalisation of share premium	3,682	(3,682)	-	-	-	-	-	-
Issue of new shares	1,339	66,903	-	-	-	68,242	-	68,242
Cost of issue new shares	-	(12,253)	-	-	-	(12,253)	-	(12,253)
Capitalisation of amounts due to related parties	-	-	-	791	-	791	-	791
At 31 March 2019	5,346	50,968	7,105	76,907	28,043	168,369	-	168,369

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

1. General Information

Narnia (Hong Kong) Group Company Limited was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 1 September 2017. The Company's immediate and ultimate parent is Spring Sea Star Investment Limited ("Spring Sea") and its ultimate controlling parties are Mr. Dai Shunhua ("Mr. Dai") and Ms. Song Xiaoying, the spouse of Mr. Dai ("Ms. Song") (collectively the "Controlling Shareholders"). Mr. Dai is the General Manager of the Group and assumed the role of Chief Executive Officer of the Company. The addresses of the Company's registered office is at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands and the principal place of business in Hong Kong is at 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong. The Group is principally engaged in the manufacture and sale of fabric products and the provision of printing and dyeing services.

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

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

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

2. Basis of Preparation of the Financial Statements

The condensed consolidated financial statements of the Group for the three months ended 31 March 2019 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as the applicable disclosure requirement Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (the "GEM Rules").

The basis of preparation and accounting policies adopted in preparing these condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's audited annual financial statements for the year ended 31 December 2018, except for the adoption of the new and revised HKFRSs that have become effective for its accounting period beginning on 1 January 2019.

The adoption of the new and revised HKFRSs has no significant effect on these condensed consolidated financial statements. The Group has not early adopted the new and revised HKFRSs that have been issued but are not yet effective for the current accounting period of the Group. The condensed consolidated financial statements have been prepared on the historical cost basis except for these financial assets designated at fair value through profit or loss and equity instruments at fair value through other comprehensive income.

The unaudited condensed consolidated financial statements have not been audited by our Company's independent auditor but have been reviewed by the audit committee of the Company (the "Audit Committee") and were approved for issue by the Board.

3. Revenue

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

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

	Three months ended	
	31 March	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of fabric products, recognised at a point in time	54,524	32,598
Service revenue from printing and dyeing, recognised over time	24,265	25,976
Total	78,789	58,574

Sales of fabric products

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

Revenue is recognised at a point in time when the legal title of the finished goods is transferred, since only by that time the Group passes control of the fabric products to its customers. The normal credit term is 30 to 90 days (2018: 30 to 90 days) upon delivery of corresponding service.

Printing and dyeing service

Revenue relating to the printing and dyeing service is recognised over time throughout the processing period because the Group's performance enhances an asset that its customer controls as the asset is enhanced. The normal credit term is 30 to 90 days (2018: 30 to 90 days) upon the completion of services.

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

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

5. Other Income

	Three months ended	
	31 March	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income	4	4
Government subsidies (<i>Note</i>)	13,000	79
Sales of raw materials	–	2,160
Dividend received from financial asset mandatorily measured at FVTPL	1,097	1,059
Others	73	69
Total	14,174	3,371

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

6. Other Gains and Losses

	Three months ended	
	31 March	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Reversal of loss allowance on trade receivables	288	595
Gain on disposal of an associate	–	23,003
Loss on disposal of property, plant and equipment	–	(978)
Net exchange loss	(544)	(679)
Others	–	328
Total	(256)	22,269

7. Finance Costs

	Three months ended	
	31 March	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	1,591	2,221
Interest on finance lease obligations	–	82
Total	1,591	2,303

8. Income Tax Expense

	Three months ended	
	31 March	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income (“EIT”)	2,227	463
Deferred tax charge/(credit)	45	(161)
Total	2,272	302

No provision for Hong Kong Profits Tax was made in the consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax during the three months ended 31 March 2019 and 2018.

Provision for the EIT during the three months ended 31 March 2019 and 2018 was made based on the estimated assessable profits calculated in accordance with income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

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

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.

8. Income Tax Expense (continued)

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

	Three months ended	
	31 March	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit before tax	16,293	27,939
Tax at PRC EIT rate of 25%	4,073	6,985
Tax effect of expense not deductible for tax purpose	143	47
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	(452)	(281)
Income taxed at concessionary rate	(1,492)	(261)
Effect of share of results of an associate	–	(181)
Tax effect of expenses not taxable for tax purpose	–	(256)
Utilisation of deductible temporary difference previously not recognised	–	(5,751)
	2,272	302
Income tax expense	2,272	302

9. Earnings Per Share

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

	Three months ended	
	31 March	
	2019	2018
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share <i>(RMB'000)</i>	14,021	21,504
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	675,555,556	823,385,689
Basic earnings per share <i>(RMB cents per share)</i>	2.08	2.61

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Group Reorganisation, the share sub-division of 1 share into 1,000 shares and the capitalisation issue of the shares of the Company had been effective on 1 January 2018.

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

10. Dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2019 (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

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

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

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

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

- (1) Greater expansion of the Group's textiles and printing and dyeing capacity, further meeting market demand for textiles and printing and dyeing products, increasing the company's sources of profit;
- (2) The Group will further increase research and development on eco-friendly functional fabrics, developing markets with new products, raising product market share, and improving product gross margins; and
- (3) Moving further towards an energy-saving and environmentally friendly orientation, increasing elimination of high consumption, low efficiency production facilities, introducing new facilities with lower consumption and higher production efficiency.

Financial Review

Revenue

Our total revenue was approximately RMB78.8 million for the three months ended 31 March 2019 (2018: approximately RMB58.6 million), representing an increase of 34.5% as comparing the revenue of the Reporting Period with that of last year.

Revenue from the sales of fabrics increased by approximately 67.2% from approximately RMB32.6 million for the three months ended 31 March 2018 to approximately RMB54.5 million for the three months ended 31 March 2019, reflecting the increase of total volume of fabrics sold from approximately 7.6 million metres for the three months ended 31 March 2018 to approximately 12.3 million metres for the three months ended 31 March 2019, 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.

With a view to diversifying our source of revenue, we also provide printing and dyeing services in the PRC. The decrease of approximately RMB1.7 million or 6.5% from approximately RMB26.0 million for the three months ended 31 March 2018 to approximately RMB24.3 million for the three months ended 31 March 2019, was primarily attributable to the decreased sales orders for printing and dyeing services from our existing customers for the Reporting Period.

Cost of sales and services

Cost of sales and services primarily comprises (i) raw materials and other inventory costs, (ii) utility costs, (iii) direct labour costs; and (iv) depreciation. The cost of sales and services increased from approximately RMB47.5 million for the three months ended 31 March 2018 to approximately RMB63.0 million for the three months ended 31 March 2019, representing an increase of approximately 32.6%. Such increase was mainly attributable to the increase in the raw materials and other inventory costs which was in line with the increase in revenue during the Reporting Period.

Gross profit and gross profit margin

Our gross profit was approximately RMB15.8 million for the three months ended 31 March 2019 (2018: approximately RMB11.1 million). The gross profit margin of our sales of fabrics increased from approximately 14.1% for the three months ended 31 March 2018 to approximately 14.9% for the three months ended 31 March 2019. Such increase was mainly due to the change in product mix of the purchase orders from our customers.

For the three months ended 31 March 2019, the gross profit margin of our processing, printing and dyeing service was approximately 34.6% (2018: approximately 33.8%).

Other income

Our other income was approximately RMB14.2 million for the three months ended 31 March 2019 (2018: approximately RMB3.4 million). The increase of approximately RMB10.8 million for the three months ended 31 March 2019 compared to that for the three months ended 31 March 2018 was mainly due to 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 Reporting Period. The government subsidies were in general discretionary with varying amounts depending on each of the subsidy programmes.

Other gains and losses

Our other losses was approximately RMB0.3 million for the three months ended 31 March 2019 (2018: other gains of approximately RMB22.3 million). The decrease of approximately RMB22.6 million for the three months ended 31 March 2019 compared to that for the three months ended 31 March 2018 was mainly due to the gain on disposal of an associate for the three months ended 31 March 2018 of approximately RMB23.0 million.

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. Our selling and distribution expenses decreased by approximately RMB0.3 million or approximately 42.9% from approximately RMB0.7 million for the three months ended 31 March 2018 to approximately RMB0.4 million for the three months ended 31 March 2019. The decrease was mainly due to a decrease in transportation cost.

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.

Our administrative expenses decreased by approximately RMB1.8 million or approximately 37.5% from approximately RMB4.8 million for the three months ended 31 March 2018 to approximately RMB3.0 million for the three months ended 31 March 2019.

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 RMB2.4 million for the three months ended 31 March 2019 (2018: approximately RMB1.5 million). The expenditure comprised of (i) the costs of our staff involving in our research and development projects, (ii) the direct usage of raw materials for pilot-run of production and testing purpose, and (iii) the depreciation of the research and development machinery and equipment. The increase of approximately RMB0.9 million was mainly due to the increase in direct usage of different materials during the testing and analysing process and increase in staff costs resulting from an additional manpower devoted in our research and development projects.

Finance costs

For the three months ended 31 March 2019, our finance costs amounted to approximately RMB1.6 million (2018: approximately RMB2.3 million). Our finance costs mainly comprised of the interest expense on our bank and other borrowings. The finance cost decreased by approximately RMB0.7 million or 30.4% as comparing to that of last year, mainly as a result of the reduction in total bank borrowings.

Income tax expense

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

No provision for Hong Kong profits tax was made during the Reporting Period as our Group had no assessable profit subject to Hong Kong profits tax during the Reporting 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 2017 to 31 December 2019.

Our Group's effective tax rate was approximately 13.9% for the three months ended 31 March 2019 (2018: approximately 1.1%). The relatively low effective tax rate for the three months ended 31 March 2018 was mainly due to the utilisation of deductible temporary difference previously not recognised of approximately RMB5.8 million.

Profit and other total comprehensive income for the period attributable to owners of the Company

As a result of the foregoing, our profit and other total comprehensive income for the period attributable to owners of the Company decreased by approximately 34.8% from approximately RMB21.5 million for the three months ended 31 March 2018 to approximately RMB14.0 million for the three months ended 31 March 2019. Excluding the expenses incurred in connection with the Listing, profit would be approximately RMB19.9 million for the three months ended 31 March 2019.

Dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2019 (2018: Nil).

OTHER INFORMATION

Corporate Reorganisation

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

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

Principal Activities

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of fabrics and the provision of printing and dyeing services.

Disclosure of Interests

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

As at 31 March 2019, the interests and short positions held by the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in the shares in the Company

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

Notes:

1. The letter “L” denotes a person’s “long position” (as defined under Part XV of the SFO) in such Shares.
2. Spring Sea Star Investment Limited (“Spring Sea”) was the registered owner of 472,848,000 Shares, representing approximately 59.11% of the issued share capital of the Company. Spring Sea is owned as to approximately 53.98% by Mr. Dai Shunhua (“Mr. Dai”) and approximately 46.02% by Ms. Song Xiaoying (“Ms. Song”). Under the SFO, Mr. Dai and Ms. Song are deemed to be interested in the same number of Shares held by Spring Sea.
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 dated 11 August 2018, Mr. Dai and Ms. Song are persons acting in concert and each of them is deemed to be interested in the Shares in which each other is interested.

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

Name of Director	Name of associated corporation	Capacity/ nature of interest	Number of shares held	Percentage of shareholding
Mr. Dai Shunhua	Spring Sea	Beneficial owner	26,991	53.98%
Ms. Song Xiaoying	Spring Sea	Beneficial owner	23,009	46.02%

As at 31 March 2019, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 31 March 2019, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

As at 31 March 2019, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares

Person/corporation	Capacity/ nature of interest	Number of shares in the Company held (Note 1)	Approximate percentage of the Company's total issued share capital
Spring Sea (Note 2)	Beneficial owner	472,848,000 (L)	59.11%
Summer Land Star Investment Limited	Beneficial owner	127,152,000 (L)	15.89%

Notes:

1. The letter "L" denotes a person's/corporation's "long position" (as defined under Part XV of the SFO) in the Shares.
2. Spring Sea was the registered owner of 472,848,000 Shares, representing approximately 59.11% of the issued share capital of the Company. Spring Sea is owned as to approximately 53.98% by Mr. Dai and approximately 46.02% by Ms. Song. Under the SFO, Mr. Dai and Ms. Song are deemed to be interested in the same number of Shares held by Spring Sea.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 March 2019, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

Compliance with Relevant Laws and Regulations

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

Contingent Liabilities, Legal and Potential Proceedings

As at 31 March 2019, the Group did not have any material contingent liabilities, on-going legal proceedings or potential proceedings threatened to be brought against the Group.

Public Float

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

Purchase, sale or Redemption of the Company's Listed Securities

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

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Island which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

Share Option Scheme

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

No share option has been granted by the Company under the Share Option Scheme since its adoption.

Connected Transaction

During the Reporting Period, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this report pursuant to the GEM Listing Rules.

Directors' and Controlling Shareholders' Interest in Competing Business and Conflict of Interest

During the Reporting Period, none of the Directors or controlling shareholders' or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group and any other conflicts of interests with the Group.

Interest of Compliance Adviser

As notified by Cinda International Capital Limited ("Cinda"), the Company's compliance adviser, neither Cinda nor any of its directors or employees or close associates had any interest in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) during the Reporting Period pursuant to Rule 6A.32 of the GEM Listing Rules.

Use of Proceeds from the Listing

The shares of the Company were listed on GEM of the Stock Exchange on 26 February 2019. Net proceeds from the placing of the shares were approximately RMB48.8 million (equivalent to approximately HK\$57.6 million), after deduction of the underwriting commission and relevant expenses. As at 31 March 2019, the Group had used net proceeds of approximately RMB5.1 million, of which approximately RMB1.4 million had been used for acquisition of machinery and equipment and approximately RMB3.7 million as working capital. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Company's prospectus dated 13 February 2019.

Corporate Governance Practice

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

Since the date of Listing of the Shares on GEM on 26 February 2019 (the "Listing Date") and up to the date of this report, the Company has complied with the code provisions under the CG Code, other than code provisions A.2.1 of the CG Code.

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

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities transactions by Directors of listed Issuers on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code since the Listing Date and up to the date of this report.

Audit Committee

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

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

The Audit Committee has reviewed the unaudited financial statements, the results announcement and this quarterly report of the Company for the three months ended 31 March 2019 with the management of the Group and agreed with the accounting treatments adopted by the Company.

Financial Asset Mandatorily Measured at FVTPL

As disclosed in the 2018 annual report of the Company, the buyer of the financial asset mandatorily measured at FVTPL paid part of the consideration in January 2019 in accordance with the sale and purchase agreement. The transaction is subjected to the completion of business registration of change at the State Administration for Market Regulation. The transaction has not been completed as at the date of this report.

Events After the Reporting Period

There is no material events after the Reporting Period as at the date of this report.

Disclosure of Information

The quarterly report for the three months ended 31 March 2019 will be dispatched to shareholders of the Company and published on the Company's website at www.narnia.hk and the website of the Stock Exchange at www.hkexnews.hk in due course.

By order of the Board

Narnia (Hong Kong) Group Company Limited

Mr. Dai Shunhua

Chairman of the Board

Zhejiang, PRC, 15 May 2019

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