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

2019
INTERIM REPORT

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

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This report, for which the directors (the "Directors") of Narnia (Hong Kong) Group Company Limited (the "Company", together with its subsidiaries, the "Group") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("the GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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.

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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

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Principal Bankers

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Bank Company Limited
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Changxing Branch
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Changxing County
Zhejiang Province
PRC

Stock Code

8607

RESULTS HIGHLIGHTS

For the six months ended 30 June 2019, the financial highlights were as follows:

- Revenue increased by 1.7% to approximately RMB153,684,000 (2018: approximately RMB151,102,000).
- Gross profit increased by 11.8% to approximately RMB33,024,000 (2018: approximately RMB29,551,000).
- Gross profit margin was approximately 21.5% (2018: approximately 19.6%).
- Profit attributable to owners of the Company for the six months ended 30 June 2019 decreased by 24.8% to approximately RMB18,445,000 (2018: approximately RMB24,527,000). Excluding the expenses incurred in connection with the listing of approximately RMB5,864,000, profit would be approximately RMB24,309,000.
- Basic earnings per share decreased by 39.8% to approximately RMB2.50 cents (2018: approximately RMB4.15 cents).
- The Board did not recommend the payment of any dividends for the six months ended 30 June 2019 (2018: nil).

UNAUDITED CONSOLIDATED INTERIM RESULTS OF 2019

The board (the "Board") of Directors of Narnia (Hong Kong) Group Company Limited is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 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 six months ended 30 June 2019

	Note	Three months ended 30 June		Six months ended 30 June	
		2019	2018	**2019**	2018
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*4*	**74,895**	92,528	**153,684**	151,102
Cost of sales and services		**(57,642)**	(74,041)	**(120,660)**	(121,551)
Gross profit		**17,253**	18,487	**33,024**	29,551
Other income	*5*	**14,011**	11,355	**28,185**	14,726
Other gains and losses	*6*	**(7,435)**	(4,349)	**(7,691)**	17,920
Selling and distribution expenses		**(708)**	(658)	**(1,147)**	(1,385)
Administrative expenses		**(2,478)**	(2,367)	**(5,491)**	(7,121)
Research expenditure		**(2,872)**	(2,930)	**(5,261)**	(4,430)
Listing expenses		**–**	(7,323)	**(5,864)**	(7,323)
Other expenses		**(9,766)**	(6,230)	**(9,866)**	(6,435)
Share of result of an associate		**–**	–	**–**	724
Finance costs	*7*	**(1,615)**	(1,832)	**(3,206)**	(4,135)
Profit before tax	*8*	**6,390**	4,153	**22,683**	32,092
Income tax expense	*9*	**(1,966)**	(473)	**(4,238)**	(775)
Profit and total comprehensive income for the period		**4,424**	3,680	**18,445**	31,317
Profit and total comprehensive income for the period attributable to:					
– Owners of the Company		**4,424**	3,023	**18,445**	24,527
– Non-controlling interests		**–**	657	**–**	6,790
		4,424	3,680	**18,445**	31,317
Earnings per share					
– Basic *(RMB cents)*	*10*	**0.60**	0.51	**2.50**	4.15

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**93,879**	105,422
Right-of-use asset		**7,671**	–
Deposit on acquisition of property, plant and equipment		**12,569**	2,744
Prepaid lease payments	12	**–**	6,679
Investment properties	13	**9,118**	9,174
Intangible assets		**764**	792
Deferred tax assets		**558**	917
		124,559	125,728
Current assets			
Inventories		**87,214**	72,525
Prepaid lease payments		**–**	170
Trade and other receivables	14	**55,859**	29,456
Receivables at fair value through other comprehensive income ("FVTOCI")		**350**	100
Tax recoverable		**651**	–
Financial assets mandatorily measured at fair value through profit or loss ("FVTPL")	15	**20,000**	20,000
Bank balances and cash		**23,703**	5,611
		187,777	127,862
Current liabilities			
Trade and other payables	16	**30,955**	36,795
Contract liabilities		**5,147**	1,618
Bank borrowings		**74,794**	91,959
Tax payable		**5,546**	3,858
Lease liabilities		**310**	–
		116,752	134,230
Net current assets/(liabilities)		**71,025**	(6,368)
Total assets less current assets/(liabilities)		**195,584**	119,360

	Note	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Capital and reserves			
Paid in/share capital	*17*	**5,346**	325
Reserves		**167,447**	97,243
Total Equity		**172,793**	97,568
Non-current liability			
Bank borrowings		**22,433**	21,792
Lease liabilities		**358**	–
		195,584	119,360

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company							
	Paid-in/ share capital *RMB'000*	Share premium *RMB'000*	Statutory reserve *RMB'000*	Other reserve *RMB'000*	(Accumulated losses)/ retained earnings *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *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	–	–	–	–	24,527	24,527	6,790	31,317
Equity transaction with noncontrolling interests	–	–	–	–	–	–	(7,766)	(7,766)
Capital reduction of Huzhou Narnia	(27,233)	–	–	–	–	(27,233)	–	(27,233)
Capital contribution by the Controlling Shareholders	–	–	1,151	83,552	–	84,703	(18,291)	66,412
Effect arising from Group Reorganisation	(52,014)	–	–	(81,423)	25	(133,412)	–	(133,412)
At 30 June 2018	325	–	5,181	9,591	1,032	16,129	–	16,129
At 1 January 2019	**325**	**-**	**7,105**	**76,116**	**14,022**	**97,568**	**-**	**97,568**
Profit and total comprehensive income for the period	**-**	**-**	**-**	**-**	**18,445**	**18,445**	**-**	**18,445**
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	**-**	**(12,254)**	**-**	**-**	**-**	**(12,254)**	**-**	**(12,254)**
Capitalisation of amounts due to related parties	**-**	**-**	**-**	**792**	**-**	**792**	**-**	**792**
At 30 June 2019	**5,346**	**50,967**	**7,105**	**76,908**	**32,467**	**172,793**	**-**	**172,793**

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Net cash generated from operating activities	**4,798**	50,004
Net cash (used in)/generated from investing activities	**(26,002)**	17,018
Net cash generated from/(used in) financing activities	**39,849**	(58,159)
Net increase in cash and cash equivalents	**18,645**	8,863
Cash and cash equivalents at beginning of the period	**5,611**	5,062
Exchange difference on cash and cash equivalents	**(553)**	(842)
Cash and cash equivalents at end of the period	**23,703**	13,083

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 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. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost except for certain financial instruments which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and on the disclosures set out in these condensed consolidated financial statements.

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases*

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

2.1.1 *Key changes in accounting policies resulting from application of HKFRS 16*

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of plants that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

2.1.2 *Transition and summary of effects arising from initial application of HKFRS 16*

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of RMB817,000 and right-of-use assets of RMB817,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 6.18%.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	1,290
Lease liabilities discounted at relevant incremental borrowing rates	1,100
Less: Recognition exemption – short-term leases	283
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	817
Lease liabilities as at 1 January 2019	817
Analysed as	
Current	301
Non-current	516
	817

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		817
Reclassified from prepaid lease payments	*(a)*	6,776
		7,593
By class:		
Leasehold lands		6,776
Land and buildings		817
		7,593

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB148,000 and RMB6,628,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

3. (a) Basis of Preparation of the Financial Statements

The condensed consolidated financial statements of the Group for the six months ended 30 June 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 GEM Listing 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. (b) **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.

4. 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:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of fabric products, recognised at a point in time	**97,823**	95,785
Service revenue from printing and dyeing, recognised over time	**55,861**	55,317
Total	**153,684**	151,102

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.

5. Other Income

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	**179**	10
Government subsidies *(Note)*	**15,741**	5,179
Sales of raw materials	**10,953**	8,231
Dividend received from financial asset mandatorily measured at FVTPL	**1,097**	1,059
Rental income	**94**	71
Others	**121**	176
Total	**28,185**	14,726

Note: The amount represents unconditional government subsidies received from local government in connection with successful listing on GEM of the Stock Exchange (RMB13.2 million), the enterprise development support (RMB2.3 million), innovation capabilities incentives (RMB0.1 million) and others.

6. Other Gains and Losses

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	**(7,422)**	(1,310)
Loss on change in fair value of financial assets mandatorily measured at FVTPL	**–**	(2,778)
Gain on disposal of an associate	**–**	23,003
Net exchange losses	**(553)**	(842)
(Recognition)/reversal of loss allowances on trade receivables	**267**	(154)
Reversal of loss allowances on other receivables	**17**	1
Total	**(7,691)**	17,920

7. Finance Costs

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**(3,183)**	(3,993)
Interest on finance lease obligations	**–**	(142)
Interest on lease liabilities	**(23)**	–
Total	**(3,206)**	(4,135)

8. Profit Before Taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Amortisation of prepare lease payments	**–**	85
Amortisation of intangible asset	**53**	33
Cost of inventories	**97,301**	78,920
Depreciation	**6,856**	5,716
Staff cost (including directors' emoluments)	**10,109**	9,844

9. Income Tax Expense

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income ("EIT")	**(3,226)**	(1,062)
Deferred tax (credit)/charge	**(1,012)**	287
Total	**(4,238)**	(775)

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 six months ended 30 June 2019 and 2018.

Provision for the EIT during the six months ended 30 June 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.

The income tax expense for the six months ended 30 June 2019 can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before tax	**22,683**	32,092
Tax at PRC EIT rate of 25%	**(5,671)**	(8,023)
Tax effect of expense not deductible for tax purpose	**(210)**	(240)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	**592**	831
Income taxed at concessionary rate	**1,690**	460
Effect of share of results of an associate	**–**	181
Tax effect of deductible of temporary difference	**(913)**	–
Tax effect of expenses not taxable for tax purpose	**274**	265
Utilisation of deductible temporary difference previously not recognised	**–**	5,751
Income tax expense	**(4,238)**	(775)

10. Earnings Per Share

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share *(RMB'000)*	**18,445**	24,527
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**736,612,022**	591,522,429
Basic earnings per share *(RMB cents per share)*	**2.50**	4.15

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the reorganisation of the Group (the "Group Reorganisation") in preparation of the listing on GEM of the Stock Exchange (the "Listing"), 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.

11. Property, Plant and Equipment

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with a cost of RMB4,834,000 (2018: RMB10,560,000). Items of property, plant and equipment with a total carrying amount of RMB7,422,000 (2018: RMB1,310,000) were disposed of during the six months ended 30 June 2019.

12. Prepaid Lease Payments

	30 June 2019 **RMB'000** **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Analysed for reporting purpose as:		
Non-current portion *(Note)*	**–**	6,679
Current portion *(Note)*	**–**	170
Total	**–**	6,849

Note: 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 30 June 2019, the amount of prepaid lease payments were reclassified to right-of-use assets upon initial application of HKFRS 16 Leases since 1 January 2019.

13. Investment Properties

The Group's investment properties were not revalued as at 30 June 2019 by independent valuers. The directors were aware of the possible change in the conditions of the property market. The directors considered that the carrying amount of the Group's investment properties did not differ significantly from the fair values as at 31 December 2018 carried out by independent qualified professional valuers. Consequently, no change in fair value of investment properties has been recognized in the Reporting Period. During the Reporting Period, the Group neither acquired nor disposed any investment properties.

14. Trade and Other Receivables

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables	**44,360**	22,938
Less: allowance for doubtful debts of trade receivables	**(1,181)**	(1,465)
	43,179	21,473
Prepayments		
– related party	**–**	199
– independent third parties	**11,457**	1,264
Value added tax recoverable	**519**	1,186
Deferred issue costs	**–**	4,071
Other receivables		
– Others	**706**	1,265
Less: allowance of doubtful debts of other receivables	**(2)**	(2)
	704	1,263
Trade, bills and other receivables	**55,859**	29,456

The Group allows a credit period ranging from 30 to 90 days (2018: 30 to 90 days) to its trade customers. The following is an aged analysis of trade receivables, net of allowance of doubtful debts, presented based on the dates of goods sold or invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	**37,656**	19,090
Over 3 months but within 6 months	**4,785**	2,113
Over 6 months but within 1 year	**622**	192
Over 1 year but within 2 years	**116**	78
Total	**43,179**	21,473

15. Financial Assets Mandatorily Measured at FVTPL

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Unlisted equity investment	**20,000**	20,000

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 9. The fair value as at 1 January 2018 was RMB18,328,000, which has been arrived at on the basis of valuation carried out by 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 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 companies and applying a discount on lack of marketability on the unlisted equity investment.

On 18 December 2018, the Group entered into a sale and purchase agreement with an independent third party of the Group to sell the Group's unlisted equity investment mandatorily measured at FVTPL for a consideration of RMB20,000,000 (the "Sale and Purchase Agreement"). As at 31 December 2018, the Group's unlisted equity investment was pledged to secure certain bank borrowings. Such pledge would be fully released before disposal. The directors of the Company are of the opinion and estimate that the transaction price agreed with an independent third party approximate to the fair value of the corresponding financial asset as at 31 December 2018.

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.

16. Trade and Other Payables

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade payables	**22,042**	18,643
Amounts due to related parties	**–**	553
Deferred income	**–**	7,000
Other payables	**1,304**	1,282
Payable for acquisition of property, plant and equipment	**4,618**	4,878
Accrued issue cost and listing expenses	**–**	764
Other tax payables	**1,464**	1,052
Payroll payable	**1,352**	2,425
Interest payables	**175**	198
Trade and other payables	**30,955**	36,795

The average credit period on purchases of materials is ranging from 30 to 90 days (2018: 30 to 90 days) upon receipts of the relevant VAT invoices. The following is an aged analysis of trade payables, presented based on the materials receipt date at the end of each reporting period:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	**13,735**	9,689
Over 3 months but within 6 months	**5,229**	5,204
Over 6 months but within 1 year	**2,205**	1,885
Over 1 year but within 2 years	**771**	1,479
Over 2 years	**102**	386
Total	**22,042**	18,643

17. Paid In/Share Capital

Ordinary shares, issued and fully paid:

	Ordinary shares	
	Number	*RMB'000*
As at 30 June 2019 (unaudited)	800,000,000	5,346

The Company was listed on GEM of the Stock Exchange on 26 February 2019. Based on the offer price of HK$0.40 per share, the net proceeds with 200,000,000 shares offered from the Placing and the Public Offer after deduction of the underwriting commissions and fees and other related expenses were approximately HK$57,578,000 (equivalent to RMB48,795,000 at the rate of HK$1.18 to RMB1.00 on 26 February 2019).

18. Dividends

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2019 (2018: nil).

19. Financial Instruments

Categories of financial instruments:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Financial assets		
Financial asset mandatorily measured at FVTPL	**20,000**	20,000
Financial assets measured at amortised cost (including cash and cash equivalent)	**67,586**	28,347
Receivables at FVTOCI	**350**	100
Total	**87,936**	48,447
Financial liabilities		
Financial liabilities at amortised cost	**125,366**	140,069
Total	**125,366**	140,069

Financial risk management objectives and policies

The major financial instruments include financial asset mandatorily measured at FVTPL, trade, bills and other receivables, receivables at FVTOCI, bank balances and cash, trade and other payables, bills payables, bank borrowings, dividends payable and finance lease obligations.

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 six months ended 30 June 2019, approximately 26.9% (2018: 27.6%) of the Group's sales and approximately 0.6% (2018: 0.5%) of the Group's purchase is denominated in currency other than the functional currency of the relevant group entities making the sale and purchase.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currency other than the respective group entities' functional currencies at the end of each reporting period are as follows:

	Liabilities		**Assets**	
	30 June 2019	31 December 2018	**30 June 2019**	31 December 2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
US$	**1,089**	5,344	**16,270**	11,546

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.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and finance lease obligations. 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 bank balances. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

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 statement 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 receivables is low because all bills receivables are issued and guaranteed by reputable PRC banks.

The credit risk on bank balances is limited because the counterparties are banks with good reputations.

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 credit-impaired balance and/or assessed collectively for remaining debtors, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast of conditions at the reporting date.

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.

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 credit-impaired balance and/or (ii) assessed collectively for remaining debtors 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.

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 we assessed there is no any significant increase in credit risk since initial recognition.

Bank balances and receivables at FVTOCI

The 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 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

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

In respect of the bank borrowings with carrying amount of RMB97.2 million as at 30 June 2019, of which RMB74.8 million will be matured in the coming next 12 months after 30 June 2019 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, based on the relationship and successful renewal history with the banks. Furthermore, as at 30 June 2019, the Group has available unutilised banking facilities amounted to RMB33.8 million.

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 statement 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, the Group continued to focus 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.

Financial Review

Revenue

Our total revenue was approximately RMB153.7 million for the six months ended 30 June 2019 (2018: approximately RMB151.1 million), representing an increase of 1.7% as comparing the revenue of the Reporting Period with that of last year.

	Six months ended 30 June			
	2019		2018	
	RMB'000	**%**	*RMB'000*	*%*
	(Unaudited)		(Unaudited)	
Sales of fabric products, recognised at a point in time	**97,823**	**63.6**	95,785	63.4
Service revenue from printing and dyeing, recognised over time	**55,861**	**36.4**	55,317	36.6
Total	**153,684**	**100.0**	151,102	100.0

Revenue from the sales of fabrics increased by approximately 2.1% from approximately RMB95.8 million for the six months ended 30 June 2018 to approximately RMB97.8 million for the six months ended 30 June 2019, reflecting the increase of total volume of fabrics sold from approximately 21.3 million metres for the six months ended 30 June 2018 to approximately 21.4 million metres for the six months ended 30 June 2019.

With a view to diversifying our source of revenue, we also provide printing and dyeing services in the PRC. The increase of approximately RMB0.6 million or 1.1% from approximately RMB55.3 million for the six months ended 30 June 2018 to approximately RMB55.9 million for the six months ended 30 June 2019, was primarily attributable to the slight increased 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 decreased from approximately RMB121.6 million for the six months ended 30 June 2018 to approximately RMB120.7 million for the six months ended 30 June 2019, representing a decrease of approximately 0.7%.

Gross profit and gross profit margin

Our gross profit was approximately RMB33.0 million for the six months ended 30 June 2019 (2018: approximately RMB29.6 million). The gross profit margin of our sales of fabrics increased from approximately 13.1% for the six months ended 30 June 2018 to approximately 13.3% for the six months ended 30 June 2019.

For the six months ended 30 June 2019, the gross profit margin of our processing, printing and dyeing service was approximately 33.8% (2018: approximately 33.5%).

Other income

Our other income was approximately RMB28.2 million for the six months ended 30 June 2019 (2018: approximately RMB14.7 million). The increase of approximately RMB13.5 million for the six months ended 30 June 2019 compared to that for the six months ended 30 June 2018 was mainly due to the increase in government subsidies.

Government subsidies increased from approximately RMB5.2 million for the six months ended 30 June 2018 to approximately RMB15.7 million for the Reporting Period. The amount represents unconditional government subsidies received from local government in connection with successful listing on GEM of the Stock Exchange (RMB13.2 million), the enterprise development support (RMB2.3 million), innovation capabilities incentives (RMB0.1 million) and others.

Other gains and losses

Our other losses was approximately RMB7.7 million for the six months ended 30 June 2019 (2018: other gains of approximately RMB17.9 million). The decrease of approximately RMB25.6 million for the six months ended 30 June 2019 compared to that for the six months ended 30 June 2018 was mainly due to the gain on disposal of an associate for the six months ended 30 June 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 17.2% from approximately RMB1.4 million for the six months ended 30 June 2018 to approximately RMB1.1 million for the six months ended 30 June 2019. The decrease was mainly due to the 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 RMB1.6 million or approximately 22.9% from approximately RMB7.1 million for the six months ended 30 June 2018 to approximately RMB5.5 million for the six months ended 30 June 2019. The decrease was mainly due to the decrease in professional service fee.

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 the Group's laboratory in our Huzhou Production Facilities. Our research expenditure was approximately RMB5.3 million for the six months ended 30 June 2019 (2018: approximately RMB4.4 million). The expenditure comprised of (i) the costs of our staff involving in our research and development projects, (ii) the direct usage of raw materials for pilot-run of production and testing purpose, and (iii) the depreciation of the research and development machinery and equipment. The increase of approximately 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 six months ended 30 June 2019, our finance costs amounted to approximately RMB3.2 million (2018: approximately RMB4.1 million). Our finance costs mainly comprised of the interest expense on our bank and other borrowings. The finance cost decreased by approximately RMB0.9 million or 22.5% 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 18.7% for the six months ended 30 Jun 2019 (2018: approximately 2.4%). The relatively low effective tax rate for the six months ended 30 June 2018 was mainly due to the utilisation of deductible temporary difference previously not recognised of approximately RMB5.8 million. The details are set out in note 9 to the financial statements.

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 24.8% from approximately RMB24.5 million for the six months ended 30 June 2018 to approximately RMB18.4 million for the six months ended 30 June 2019. Excluding the expenses incurred in connection with the Listing of approximately RMB5.9 million, profit would be approximately RMB24.3 million for the six months ended 30 Jun 2019.

Dividends

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: nil).

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 Reporting 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. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 30 June 2019, our Group had cash and cash equivalents amounting to approximately RMB23.7 million (31 December 2018: approximately RMB5.6 million).

Cash Flow

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

Net cash generated from operating activities

The Group's cash generated from operating activities primarily derives from the sales proceeds of the Group's products and services. For the six months ended 30 June 2019, the Group's net cash generated from operating activities amounted to approximately RMB4.8 million, representing a decrease of approximately RMB45.2 million from approximately RMB50.0 million for the six months ended 30 June 2018. The decrease was mainly due to the increase in trade and other receivables for the six months ended 30 June 2019.

Net cash (used in)/generated from investing activities

For the six months ended 30 June 2019, the Group's net cash outflow used in investing activities amounted to approximately RMB26.0 million, representing an increase of approximately RMB43.0 million as compared with the cash inflow generated from investing activities of approximately RMB17.0 million for the six months ended 30 June 2018. The increase was mainly due to the increase in purchase of property, plant and equipment for the six months ended 30 June 2019.

Net cash generated from/(used in) financing activities

For the six months ended 30 June 2019, the Group's net cash inflow generated from financing activities amounted to approximately RMB39.8 million, representing an increase of approximately RMB98.0 as compared with the net cash outflow used in financing activities of approximately RMB58.2 million for the six months ended 30 June 2019. The increase was mainly due to the proceeds from the Listing.

Capital Structure

The capital of the Company comprises only ordinary shares. Details of the Company's share capital are set out in note 17 to the unaudited condensed consolidated financial statements.

Indebtedness

The total indebtedness of the Group as at 30 June 2019 was approximately RMB97.2 million (31 December 2018: approximately RMB113.8 million). During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Asset-liability ratio

As at 30 June 2019, the Group's asset-liability ratio was approximately 31.1% (31 December 2018: approximately 44.9%), calculated as the total borrowings divided by total assets multiplied by 100%. The decrease was mainly due to a decrease in bank borrowings.

Pledge of assets

As at 30 June 2019, the Group had pledged certain buildings, fixtures and facilities, land use right and time deposits with aggregate carrying amount of approximately RMB83.3 million (31 December 2018: approximately RMB83.3 million).

Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, construction in progress. The Group's capital expenditures amounted to approximately RMB4.8 million for the six months ended 30 June 2019 (2018: approximately RMB10.6 million).

Foreign exchange risk

The major business of the Group has used RMB and US$ as the functional and operational currencies. The Group faces foreign exchange risk arising from RMB and US$. The Group has no major risks in changes for other currency exchange.

Major Acquisitions and Disposal

For the six months ended 30 June 2019, the Group has not made any significant acquisition and disposal of assets, subsidiaries or affiliated companies.

Going Concern

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

Future Outlook

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.

Human Resources and Training

As at 30 June 2019, the Group had a total of 388 employees, total staff cost for the Reporting Period amounted to approximately RMB10.1 million (2018: approximately RMB9.8 million). The Group releases an annual sales guideline at the beginning of each year, formulates the sales strategies and sets out the sales targets of different sales areas after discussing with sales representatives. At the end of each year, the Group makes performance appraisal for sales personnel based on the review results and the achievement of sales target.

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

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 the Group Reorganisation 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, 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 30 June 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 *(Note 1)*	Approximate percentage of shareholding
Mr. Dai Shunhua *(Note 2 and 3)*	Interest in controlled corporation *(Note 2)* Interest of spouse/ interest held jointly with another person *(Note 3)*	Spring Sea	472,848,000 (L)	59.11%
Ms. Song Xiaoying *(Note 2 and 3)*	Interest in controlled corporation *(Note 2)* Interest of spouse/ interest held jointly with another person *(Note 3)*	Spring Sea	472,848,000 (L)	59.11%

Notes:

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

2. 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 30 June 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 30 June 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 30 June 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 30 June 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 30 June 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, during the six months ended 30 June 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

During the six months ended 30 June 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

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.

A deed of non-competition was entered into by the controlling shareholders in favour of the Company (for itself and as trustee for its subsidiaries) on 12 February 2019, details of which are set out in the prospectus of the Company dated 13 February 2019 (the "Prospectus").

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 30 June 2019, the Group had used net proceeds of approximately RMB14.7 million.

Following table illustrates the status of the use of net proceeds according to the section headed "Future Plans and Use of Proceeds" in the Prospectus as at 30 June 2019:

	Planned use of proceeds as disclosed in the Prospectus up to 30 June 2019 *(RMB million)*	**Actual utilised amount as at 30 June 2019** *(RMB million)*	**Unutilised amount as at 30 June 2019** *(RMB million)*
Construction of new weaving factory	2.8	–	2.8
Renovation of the existing weaving factory	3.5	3.2	0.3
Acquisition of machinery, equipment and ancillary facilities for weaving	–	5.5	(5.5)
Acquisition of machinery, equipment and ancillary facilities for printing and dyeing	5.9	1.6	4.3
Enhancement of environmental protection infrastructure	–	0.7	(0.7)
General working capital	4.2	3.7	0.5
Total	16.4	14.7	1.7

Despite the difference in the time of application of the proceeds, the Company intends to continue to apply the net proceeds in accordance with the section headed "Future Plans and Use of Proceeds" in the Prospectus.

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.

During the six months ended 30 June 2019 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 during the six months ended 30 June 2019 and up to the date of this report.

Review by 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 financial information in this report has not been audited by the auditor of the Company. The Audit Committee has reviewed the unaudited financial statements, the results announcement and this Interim report of the Company for the six months ended 30 June 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 subject 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 interim report for the six months ended 30 June 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, 14 August 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.