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

2020
INTERIM REPORT

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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.*

CONTENTS

CORPORATE INFORMATION

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

Independent Non-executive Directors
Mr. Song Jun
Dr. Liu Bo
Mr. Yu Chung Leung

Audit Committee Members
Mr. Yu Chung Leung *(Chairman)*
Dr. Liu Bo
Mr. Song Jun

Nomination Committee Members
Dr. Liu Bo *(Chairman)*
Mr. Song Jun
Mr. Yu Chung Leung

Remuneration Committee Members
Mr. Song Jun *(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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PRC

Company's Website
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Hong Kong

Hong Kong Branch Share Registrar and Transfer Office
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(as to Hong Kong law)

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Compliance Adviser
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Hong Kong

Principal Bankers
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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 six months ended 30 June 2020, the financial highlights were as follows:

- Revenue decreased by 22.3% to approximately RMB119.5 million (2019: approximately RMB153.7 million).
- Gross profit decreased by 80.0% to approximately RMB6.6 million (2019: approximately RMB33.0 million).
- Gross profit margin was approximately 5.5% (2019: approximately 21.5%).
- Loss attributable to the equity holders of the Company for the six months ended 30 June 2020 was approximately RMB16.0 million (2019: profit attributable to the equity holders of the Company was approximately RMB18.4 million).
- Basic losses per share was approximately RMB2.00 cents (2019: basic earnings per share was approximately RMB2.50 cents).
- The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: nil).

UNAUDITED CONSOLIDATED INTERIM RESULTS OF 2020

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 2020 (the "**Reporting Period**") and the explanatory notes, together with the comparative figures of the corresponding period in 2019 as follows:

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

For the six months ended 30 June 2020

		Three months ended 30 June		Six months ended 30 June	
		2020	2019	**2020**	2019
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*5*	**66,669**	74,895	**119,465**	153,684
Cost of sales and services		**(65,655)**	(57,642)	**(112,863)**	(120,660)
Gross profit		**1,014**	17,253	**6,602**	33,024
Other income	*6*	**1,226**	14,011	**3,121**	28,185
Other gains and losses	*7*	**(7,613)**	(7,435)	**(10,798)**	(7,691)
Selling and distribution expenses		**(764)**	(708)	**(1,238)**	(1,147)
Administrative expenses		**(3,547)**	(2,478)	**(6,660)**	(5,491)
Research expenditure		**(3,052)**	(2,872)	**(4,778)**	(5,261)
Listing expenses		**–**	–	**–**	(5,864)
Other expenses		**(231)**	(9,766)	**(291)**	(9,866)
Finance costs	*8*	**(1,498)**	(1,615)	**(2,686)**	(3,206)
(Loss)/profit before tax	*9*	**(14,465)**	6,390	**(16,728)**	22,683
Income tax credit/(expense)	*10*	**791**	(1,966)	**718**	(4,238)
(Loss)/profit for the period attributable to the equity holders of the Company		**(13,674)**	4,424	**(16,010)**	18,445
Other comprehensive income		**–**	–	**–**	–
Total comprehensive (loss)/income for the period attributable to the equity holders of the Company		**(13,674)**	4,424	**(16,010)**	18,455
(Losses)/earnings per share – Basic and diluted *(RMB cents)*	*11*	**(1.71)**	0.60	**(2.00)**	2.50

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	*12*	**113,012**	111,738
Deposit on acquisition of property, plant and equipment		**3,107**	6,753
Investment properties	*13*	**8,671**	8,671
Intangible assets		**1,133**	1,211
Financial assets mandatorily measured at fair value through profit or loss ("**FVTPL**")	*14*	**20,000**	20,000
Deferred tax assets		**–**	1,739
		145,923	150,112
Current assets			
Inventories		**63,850**	93,755
Trade and other receivables	*15*	**72,161**	68,183
Receivables at fair value through other comprehensive income ("**FVTOCI**")		**8,628**	7,004
Restricted bank deposits		**41,700**	10,060
Bank balances and cash		**9,298**	5,189
		195,637	184,191
Current liabilities			
Trade, bills and other payables	*16*	**60,909**	44,515
Contract liabilities		**6,337**	7,067
Bank borrowings		**75,850**	74,493
Tax payable		**5,144**	4,901
		148,240	130,976
Net current assets		**47,397**	53,215
Total assets less current liabilities		**193,320**	203,327

	Note	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current liabilities			
Bank borrowings		**38,183**	31,900
Lease liabilities		**–**	280
		38,183	32,180
Net assets		**155,137**	171,147
Capital and reserves			
Share capital	*17*	**5,346**	5,346
Reserves		**149,791**	165,801
Total equity		**155,137**	171,147

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserve *RMB'000*	Other reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2019	325	–	7,105	76,116	14,022	97,568
Profit and total comprehensive income for the period	–	–	–	–	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
Cost of issue new shares	–	(12,254)	–	–	–	(12,254)
Capitalisation of amounts due to related parties	–	–	–	792	–	792
At 30 June 2019	5,346	50,967	7,105	76,908	32,467	172,793
At 1 January 2020	**5,346**	**36,523**	**11,407**	**76,907**	**40,964**	**171,147**
Loss and total comprehensive loss for the period	**–**	**–**	**–**	**–**	**(16,010)**	**(16,010)**
At 30 June 2020	**5,346**	**36,523**	**11,407**	**76,907**	**24,954**	**155,137**

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**34,718**	4,798
Net cash used in investing activities	**(6,287)**	(26,002)
Net cash (used in)/generated from financing activities	**(24,000)**	39,849
Net increase in cash and cash equivalents	**4,431**	18,645
Cash and cash equivalents at beginning of the period	**5,189**	5,611
Exchange difference on cash and cash equivalents	**(322)**	(553)
Cash and cash equivalents at end of the period	**9,298**	23,703

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. General Information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 1 September 2017. The 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 (the "**Share(s)**") have been listed on GEM of the Stock Exchange since 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 Information

This unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2020 has been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**"). This financial information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Stock Exchange GEM Listing Rules.

The basis of preparation and accounting policies adopted in preparing this unaudited condensed consolidated interim financial information are consistent with those adopted in the preparation of the Group's audited annual financial statements for the year ended 31 December 2019, except for the adoption of the new and revised IFRSs that have become effective for its accounting period beginning on 1 January 2020.

2. Basis of Preparation of the Financial Information (continued)

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

The unaudited condensed consolidated interim financial information has not been audited by our Company's independent auditor but has been reviewed by the audit committee of the Company and was approved for issue by the Board.

3. Accounting Policies

The accounting policies applied for this unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2020 are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements.

The Directors anticipate that the adoption of the amendments to IFRSs effective for the financial year ending 31 December 2020 do not have a material impact on the results and financial position of the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

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. 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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of fabric products, recognised at a point in time	**65,167**	97,823
Service revenue from printing and dyeing, recognised over time	**54,298**	55,861
Total	**119,465**	153,684

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 (2019: 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 (2019: 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.

6. Other Income

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	**6**	179
Government subsidies *(Note)*	**2,018**	15,741
Net gain on sales of raw materials	**–**	10,953
Dividend received from financial asset mandatorily measured at FVTPL	**1,097**	1,097
Rental income	**–**	94
Others	**–**	121
Total	**3,121**	28,185

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

7. Other Gains and Losses

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	**–**	(7,422)
Net loss on sales of raw materials	**(7,825)**	–
Net exchange loss *(Note)*	**(3,207)**	(553)
Reversal of loss allowances on trade receivables	**–**	267
Reversal of loss allowances on other receivables	**–**	17
Others	**234**	–
Total	**(10,798)**	(7,691)

Note: The net exchange loss was mainly a book entry loss from consolidating a Hong Kong subsidiary which reporting currency is in Hong Kong Dollar.

8. Finance Costs

	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest on bank borrowings	**(2,665)**	(3,183)
Interest on lease liabilities	**(21)**	(23)
Total	**(2,686)**	(3,206)

9. (Loss)/Profit Before Taxation

(Loss)/profit before taxation is arrived at after charging:

	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Amortisation of intangible asset	**78**	53
Cost of inventories	**69,111**	97,301
Depreciation	**5,669**	6,856
Staff cost (including directors' emoluments)	**9,841**	10,109

10. Income Tax Credit/(Expense)

	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Current tax		
PRC Enterprise Income Tax	**1,218**	(3,226)
Deferred tax credit	**(500)**	(1,012)
Total	**718**	(4,238)

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 2020 and 2019.

Provision for the PRC Enterprise Income Tax during the six months ended 30 June 2020 and 2019 was made based on the estimated assessable (loss)/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. As at the date of this report, the Group has been in the progress of applying for the renewal of the preferential tax certificate.

10. Income Tax Credit/(Expense) (continued)

The income tax credit for the six months ended 30 June 2020 can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive loss as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss)/profit before tax	**(16,728)**	22,683
Tax at PRC EIT rate of 25%	**4,182**	(5,671)
Tax effect of expense not deductible for tax purpose	**(285)**	(210)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	**(574)**	592
Income taxed at concessionary rate	**(1,459)**	1,690
Tax effect of deductible of temporary difference	**(889)**	(913)
Tax effect of expenses not taxable for tax purpose	**(257)**	274
Income tax credit/(expense)	**718**	(4,238)

11. (Losses)/Earnings Per Share

The calculation of basic (losses)/earnings per Share attributable to the equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
(Losses)/earnings:		
(Loss)/profit for the period attributable to the equity holders of the Company for the purpose of basic (losses)/earnings per Share *(RMB'000)*	**(16,010)**	18,445
Number of shares:		
Weighted average number of ordinary Shares for the purpose of basic (losses)/earnings per share	**800,000,000**	736,612,022
Basic (losses)/earnings per *Share (RMB cents per Share)*	**(2.00)**	2.50

For the period from 1 January 2019 to 26 February 2019 (date of Listing), 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 "**Reorganisation**") in preparation of 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 2019.

No diluted (losses)/earnings per Share was presented as there were no potential ordinary Shares in issue throughout the both periods.

12. Property, Plant and Equipment

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment with a cost of RMB4,534,000 (2019: RMB4,834,000). Items of property, plant and equipment with a total carrying amount of RMB246,000 (2019: RMB7,422,000) were disposed of during the six months ended 30 June 2020.

13. Investment Properties

The Group's investment properties were not revalued as at 30 June 2020 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 2019 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. Financial Assets Mandatorily Measured at FVTPL

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Unlisted equity investment	**20,000**	20,000

Reference is made to the announcement of the Company dated 18 March 2020 in relation to the sale and purchase agreement entered into between Huzhou Narnia Industry Co., Ltd.* (湖州納尼亞實業有限公司) ("**Huzhou Narnia**"), an indirect wholly-owned subsidiary of the Company, as transferor and Zhejiang Hongchen Printing and Dyeing Co., Ltd.* (浙江弘晨印染科技股份有限公司) ("**Zhejiang Hongchen**"), an independent third party of the Company, as transferee dated 18 December 2018 (the "**Sale and Purchase Agreement**") for the sale and purchase of the unlisted equity investment, 7,565,794 shares (representing approximately 1.07% of the total number of shares) (the "**Sale Shares**") in Zhejiang Changxing Rural Commercial Bank Company Limited* (浙江長興農村商業銀行股份有限公司) ("**ZCRCB**") at the total consideration of RMB20,000,000 (the "**ZCRCB Disposal**").

As (i) after a shareholders' resolution being passed by ZCRCB on 13 March 2019 that Huzhou Narnia would be subject to a lock-up period over the shares in ZCRCB up to May 2021 as Huzhou Narnia was deemed by ZCRCB as a substantial shareholder due to its position as top ten shareholders in ZCRCB and (ii) the recent outbreak of the Epidemic, which adversely affected the operation of Zhejiang Hongchen, after mutual negotiation of the parties, on 18 March 2020, Huzhou Narnia and Zhejiang Hongchen entered into a termination agreement (the "**Termination Agreement**"), pursuant to which the parties have mutually agreed, among others, (i) to terminate the Sale and Purchase Agreement with effect from the date of the Termination Agreement; (ii) that Huzhou Narnia shall refund the first instalment of the consideration of RMB2,000,000 to Zhejiang Hongchen; and (iii) that no party to the Sale and Purchase Agreement shall have any claim against the other party in respect of any matter arising out of or in connection with the Sale and Purchase Agreement.

* *For identification purpose only*

15. Trade and Other Receivables

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	**56,271**	60,499
Less: allowance for doubtful debts of trade receivables	**(3,325)**	(3,325)
	52,946	57,174
Prepayments	**18,990**	9,910
Value added tax recoverable	**–**	758
Interest receivable	**–**	116
Other receivables		
– Others	**227**	227
Less: allowance of doubtful debts of other receivables	**(2)**	(2)
	225	225
Trade and other receivables	**72,161**	68,183

The Group allows a credit period ranging from 30 to 90 days (2019: 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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	**40,243**	50,923
Over 3 months but within 6 months	**11,205**	5,731
Over 6 months but within 1 year	**1,376**	484
Over 1 year but within 2 years	**122**	36
Total	**52,946**	57,174

16. Trade, Bills and Other Payables

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables	27,107	30,633
Bills payable	31,700	–
Other payables	83	4,344
Payable for acquisition of property, plant and equipment	–	3,876
Other tax payables	–	1,578
Payroll payable	2,019	3,952
Interest payables	–	132
Trade, bills and other payables	60,909	44,515

The average credit period on purchases of materials is ranging from 30 to 90 days (2019: 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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	11,907	16,319
Over 3 months but within 6 months	5,192	10,315
Over 6 months but within 1 year	8,215	2,826
Over 1 year but within 2 years	1,307	1,072
Over 2 years	486	101
Total	27,107	30,633

17. Share Capital

Ordinary Shares, issued and fully paid:

	Ordinary shares	
	Number	*RMB'000*
As at 30 June 2020 (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 (as defined in the prospectus of the Company dated 13 February 2019 (the "**Prospectus**")) and the Public Offer (as defined in the Prospectus) after deduction of the underwriting commissions and fees and other related expenses were approximately HK$44,700,000 (equivalent to approximately RMB37,900,000 at the rate of HK$1.18 to RMB1.00 on 26 February 2019).

18. Dividends

The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: nil).

19. Financial Instruments

Categories of financial instruments:

	30 June 2020 ***RMB'000*** **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Financial assets		
Financial asset mandatorily measured at FVTPL	**20,000**	20,000
Financial assets measured at amortised cost (including cash and cash equivalent)	**103,944**	72,764
Receivables at FVTOCI	**8,628**	7,004
Total	**132,572**	99,768
Financial liabilities		
Financial liabilities at amortised cost	**174,942**	150,908
Total	**174,942**	150,908

19. Financial Instruments (continued)

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 2020, approximately 16.1% (2019: 26.9%) of the Group's sales and approximately 0.3% (2019: 0.6%) 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 2020	31 December 2019	**30 June 2020**	31 December 2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
US$	**302**	121	**9,585**	10,089

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.

19. Financial Instruments (continued)

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.

19. Financial Instruments (continued)

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, 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 RMB114.0 million as at 30 June 2020, of which RMB75.8 million will be matured in the coming next 12 months after 30 June 2020 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 2020, the Group has available unutilised banking facilities amounted to RMB39.6 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

Industry Review

During the Reporting Period, the economy of People's Republic of China (the "**PRC**") was under the impact of the novel coronavirus (COVID-19) (the "**Epidemic**"). In order to prevent the spread of the Epidemic, industries have taken measures to halt production and observed travel restrictions at the call of the PRC government, which led to an economic downturn in the first quarter. With the control of the Epidemic in the PRC, the economy has gradually recovered. Under the impact of the outbreak of the Epidemic in foreign countries, foreign trade sales decreased significantly as compared to the previous year. Due to the influence of the accelerated transformation of the textile industry, the normalization of environmental protection policies, the rise of the Southeast Asian textile industry, industrial relocations and other factors, the textile industry was forced to further upgrade and transform towards quality development. However, with its large population, the PRC sees growing demands for textile products, and this trend is likely to continue in the future. By virtue of its diversity, textile products can be applied in many areas in addition to the traditional clothing and home textile markets. Strong domestic demand stimulated the entire textile industry in the PRC.

Through continuous advancement of technology and innovation, players in the textile fabric production industry are actively developing new materials that can be applied in different sectors, ranging from aerospace and infrastructure construction to leisure and sports. Stimulated and driven by continuous technological innovation, uncompetitive manufacturers will be eliminated from the textile fabric production industry. This will spell tough times for the development of small companies, but it also presents opportunity for medium and large companies in the textile industry.

In order to form industrial alliance groups and to promote industrial advancement, players in the textile fabric manufacturing industry forge mutual connections through the formation of intra-regional industrial clusters. By leveraging shared resources of various enterprises, an industrial alliance group serves as a platform where information relating to latest market trends, significant events in the industry, variations in upstream raw materials, etc. are gathered and consolidated, which keep companies informed of market dynamics and allow them to work out timely strategies. Such industrial alliance groups provide advantages for companies, allowing them to create economies of scale, thus driving the sustainable development of overall textile fabric manufacturing industry.

Business Review

The Reporting Period was a challenging period for the Group, as we recorded a relatively large decrease in revenue and profit levels, due to the outbreak of the Epidemic in the PRC in the first quarter of 2020 and the widespread outbreak of the Epidemic around the world in the second quarter of 2020. Adverse factors such as the Sino-US trade dispute, the Epidemic, the fluctuation of oil prices, the complex and volatile domestic and internal economic situations, and prominent problems arising from the instability and uncertainties about global economy attributed to the challenging operation environment of the Group in the Reporting Period.

With the outbreak of the Epidemic in the PRC at the beginning of 2020, a number of provinces and cities have adopted various public health emergency policies, including but not limited to, imposing travel restrictions in certain cities, postponing the date of resumption of work after the Chinese New Year holiday, issuing compulsory quarantine orders and prohibiting the movement of people between different provinces and cities. During the Reporting Period, to prevent the spread of the Epidemic, the Group's factories in Changxing suspended its production from 24 January 2020 to 21 February 2020, and gradually restored its production in March 2020. The various public health emergency policy caused a drop in revenue of the Group during the Reporting Period.

Despite the difficult times which the Group was facing, the Group continued to focus on strengthening its core business of processing and dyeing textile products. Besides maintaining business relationships with loyal customers, we have also spent more effort in seeking out new customers to increase our market share.

During the Reporting Period, the Board resolved the change in use of the proceeds from the Listing by increasing the Group's investment in the melt-blown fabric production line, as the demand for melt-blown fabric remained strong as a result of the further global spread of the Epidemic. As of present, we received positive customer response and reached agreements with manufacturers of wet wipes, facial masks, diapers and other products. In addition to masks, the melt-blown fabric produced by the Group will be further utilized in other areas. Meanwhile, the Group also increased promotion efforts for its new products. The Group continued to pay attention to the development of domestic and foreign markets, and as of now, the business volume with respect to domestic printing and dyeing processing has basically recovered when comparing with the same period in last year. At present, the Directors believe that the strong internal financial position and cash flow with the financing facilities available of the Group are sufficient to support its long-term development.

Financial Review

Revenue

Our total revenue was approximately RMB119.5 million for the six months ended 30 June 2020 (2019: approximately RMB153.7 million), representing a decrease of 22.3% as comparing the revenue of the Reporting Period with that of last year. The decrease was mainly due to the negative impacts from the Epidemic, which drove down the demand for the fabric products and printing and dyeing services of the Group, and the Group's production was temporarily suspended after the Chinese New Year holiday and movement of people was affected by the Epidemic.

	Six months ended 30 June			
	2020		2019	
	RMB'000	**%**	*RMB'000*	*%*
	(Unaudited)		(Unaudited)	
Sales of fabric products, recognised at a point in time	**65,167**	**54.5**	97,823	63.6
Service revenue from printing and dyeing, recognised over time	**54,298**	**45.5**	55,861	36.4
Total	**119,465**	**100.0**	153,684	100.0

Revenue from the sales of fabrics decreased by approximately 33.4% from approximately RMB97.8 million for the six months ended 30 June 2019 to approximately RMB65.2 million for the six months ended 30 June 2020, reflecting the decrease of total volume of fabrics sold from approximately 19.5 million metres for the six months ended 30 June 2019 to approximately 11.8 million metres for the six months ended 30 June 2020.

With a view to diversifying our source of revenue, we also provide printing and dyeing services in the PRC. The decrease of approximately RMB1.6 million or 2.8% from approximately RMB55.9 million for the six months ended 30 June 2019 to approximately RMB54.3 million for the six months ended 30 June 2020, was primarily attributable to the slight 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 decreased from approximately RMB120.7 million for the six months ended 30 June 2019 to approximately RMB112.9 million for the six months ended 30 June 2020, representing a decrease of approximately 6.5%. The decrease was mainly due to the decrease in production volume.

Gross profit and gross profit margin

Our gross profit was approximately RMB6.6 million for the six months ended 30 June 2020 (2019: approximately RMB33.0 million). The Group's gross profit margin decreased from approximately 21.5% for the six months ended 30 June 2019 to approximately 5.5% for the six months ended 30 June 2020. The significant decrease in gross profit margin was a result of significant decrease in revenue while cost of sales and services remained similar as comparing with the same period in 2019.

Other income

Our other income was approximately RMB3.1 million for the six months ended 30 June 2020 (2019: approximately RMB28.2 million). The decrease of approximately RMB25.1 million for the six months ended 30 June 2020 compared to that for the six months ended 30 June 2019 was mainly due to the decrease in government subsidies and net gain on sales of raw materials.

Government subsidies decreased from approximately RMB15.7 million for the six months ended 30 June 2019 to approximately RMB2.0 million for the Reporting Period as we received government subsidies from local government amounted to approximately RMB13.2 million in connection of the successful listing on GEM of the Stock Exchange for the six months ended 30 June 2019, while the Group did not receive such amount for the six months ended 30 June 2020.

Other gains and losses

Our other losses was approximately RMB10.8 million for the six months ended 30 June 2020 (2019: approximately RMB7.7 million). The increase of approximately RMB3.1million for the six months ended 30 June 2020 compared to that for the six months ended 30 June 2019 was mainly due to the increase in net exchange loss of approximately RMB2.7 million and loss on disposing some out-dated raw materials of approximately RMB7.8 million, which was partially off-set by the decrease in loss on disposal of property, plant and equipment of approximately RMB7.4 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 increased by approximately RMB0.1 million or approximately 9.1% from approximately RMB1.1 million for the six months ended 30 June 2019 to approximately RMB1.2 million for the six months ended 30 June 2020. The increase was mainly due to the increase 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 increased by approximately RMB1.2 million or approximately 21.8% from approximately RMB5.5 million for the six months ended 30 June 2019 to approximately RMB6.7 million for the six months ended 30 June 2020. The increase was mainly due to the increase 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 RMB4.8 million for the six months ended 30 June 2020 (2019: approximately RMB5.3 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 decrease of approximately RMB0.5 million was mainly due to the decrease in direct usage of different materials during the testing and analysing process.

Finance costs

For the six months ended 30 June 2020, our finance costs amounted to approximately RMB2.7 million (2019: approximately RMB3.2 million). Our finance costs mainly comprised of the interest expense on our bank and other borrowings. The finance cost decreased by approximately RMB0.5 million or 15.6% as comparing to that of last year, mainly as a result of the reduction in bank interest rate.

Income tax credit/(expense)

Income tax credit/(expense) represents our total current and deferred tax credit/(expense). The current tax is calculated based on taxable (losses)/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. As at the date of this report, the Group has still been in the progress of applying for the renewal of the preferential tax certificate.

The income tax credit for the six months ended 30 June 2020 was approximately RMB0.7 million, when compared to an income tax expense of approximately RMB4.2 million for the six months ended 30 June 2019. The income tax credit was mainly due to the loss before income tax. The details are set out in Note 10 to the financial statements.

(Loss)/profit and other total comprehensive (loss)/income for the period attributable to the equity holders of the Company

As a result of the foregoing, our loss and other total comprehensive loss for the period attributable to the equity holders of the Company for the six months ended 30 June 2020 was approximately RMB16.0 million, while there was a profit of approximately RMB18.4 million for the six months ended 30 June 2019.

Dividends

The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: 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 defined in the Prospectus) 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 2020, our Group had cash and cash equivalents amounting to approximately RMB9.3 million (31 December 2019: approximately RMB5.2 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 2020, the Group's net cash generated from operating activities amounted to approximately RMB34.7 million, representing an increase of approximately RMB29.9 million from approximately RMB4.8 million for the six months ended 30 June 2019. The increase was mainly due to the increase in trade and other payables and the decrease in inventories for the six months ended 30 June 2020.

Net cash used in investing activities

For the six months ended 30 June 2020, the Group's net cash used in investing activities amounted to approximately RMB6.3 million, representing a decrease of approximately RMB19.7 million as compared with the cash used in investing activities of approximately RMB26.0 million for the six months ended 30 June 2019. The decrease was mainly due to the decrease in purchase of property, plant and equipment for the six months ended 30 June 2020.

Net cash (used in)/generated from financing activities

For the six months ended 30 June 2020, the Group's net cash used in financing activities amounted to approximately RMB24.0 million, representing a decrease of approximately RMB63.8 million as compared with the net cash generated from financing activities of approximately RMB39.8 million for the six months ended 30 June 2019. The decrease was mainly due to the completion of the Share Offer and the receipt of the Net Proceeds (as defined in the Prospectus) from the Listing in the corresponding period in 2019, while there was none in the Reporting Period.

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. During the Reporting Period, there was no change in the capital structure of the Company.

Indebtedness

The total indebtedness of the Group as at 30 June 2020 was approximately RMB114.0 million (31 December 2019: approximately RMB106.3 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 2020, the Group's asset-liability ratio was approximately 33.4% (31 December 2019: approximately 31.8%), calculated as the total borrowings divided by total assets multiplied by 100%. The increase was mainly due to an increase in bank borrowings.

Pledge of assets

As at 30 June 2020, the Group had pledged certain buildings, fixtures and facilities, land use right and time deposits with aggregate carrying amount of approximately RMB88.5 million (31 December 2019: approximately RMB88.5 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 RMB4.5 million for the six months ended 30 June 2020 (2019: approximately RMB4.8 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. However, the Group had not entered into any hedging instrument or contract or other financial instrument for hedging purpose during the Reporting Period.

Major Acquisitions and Disposal

As disclosed in an announcement dated 18 March 2020, on 18 March 2020, Huzhou Narnia and Zhejiang Hongchen entered into the Termination Agreement, pursuant to which the parties mutually agreed, among others, (i) to terminate the Sale and Purchase Agreement with effect from the date of the Termination Agreement; (ii) that Huzhou Narnia shall refund the first instalment of the consideration of RMB2,000,000 to Zhejiang Hongchen; and (iii) that no party to the Sale and Purchase Agreement should have any claim against the other party in respect of any matter arising out of or in connection with the Sale and Purchase Agreement. For further details in respect of the Termination Agreement, please refer to announcement dated 18 March 2020 and Note 14 to the unaudited condensed consolidated financial statements in this report.

Save as disclosed above, for the six months ended 30 June 2020, the Group has not made any significant acquisition and disposal of assets, subsidiaries or affiliated companies.

Going Concern

During the Reporting Period, due to the negative impacts from the Epidemic, which drove down the demand for the fabric products and printing and dyeing services of the Group. Besides, in order to prevent the spread of the Epidemic, the Group's factories in Changxing halted its production from 24 January 2020 to 21 February 2020, and gradually restored its production in March 2020. The various negative impacts and emergency policies caused the Group recorded a loss of approximately RMB16.0 million for the six months ended 30 June 2020.

In view of such circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The Directors have reviewed the Group's cash flow projections prepared by management, which cover a period of not less than twelve months from 30 June 2020. The Directors are of the opinion that the negative impacts from the Epidemic are only short term; and the Group will have sufficient working capital to finance its operations and to meet its financial obligations when they fall due within the next twelve months from the end of the Reporting Period. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Future Outlook

Looking ahead, market competition will remain fierce while the domestic and international economic environment will continue to be complex and volatile. The Group will keep focus on its core business, maintaining and increasing market share for our major products with a dominating advantage.

In 2020, the impact of international factors such as the Sino-US trade dispute and the outbreak of the Epidemic led to instability in the development of the textile industry. Demand for printing and dyeing is lower compared to the previous year, but the Group is still confident that, as the Epidemic ebbs, its production capacity will be released in the second half of 2020, and that it will sustain stable development. While the textile industry continues to be affected by domestic and international issues, the combined effect of technological advancement, safety management and environmental protection has eliminated some of the less competitive small and medium textile manufacturing enterprises. As "survival of the fittest" hits the industry, existing enterprises are forced to transform and upgrade, thus accelerating the pace of industrial product restructuring and upgrading, and gradually raising industrial consolidation.

In 2020, market competition will be even more intense and will feature more challenges and uncertainties. Facing this new landscape, the Group will remain steadfast in being market-oriented, united and industrious. We will continue to build up our risk awareness and innovative mindset, and carry forward the entrepreneurial spirit of loyal partnership and common growth, in order to take the Company's business to the next level.

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

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

(2) Further enhancing research and development on eco-friendly functional fabrics, expanding our business team, 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.

Due to the outbreak of the Epidemic in January 2020 in the PRC, the government authorities have taken a timely approach to adopt Epidemic prevention measures, such as temporarily closing public places, checking the travel routes of employees, and restricting employees from returning to work at local enterprises. As a result, the Group's factories in the PRC halted production since 24 January 2020 to prevent the spread of the Epidemic, and have resumed work on 21 February 2020. At present, the Group is carrying out normal operations. Due to the fact that the Epidemic in the PRC turned to be in control as at date of this report, the Directors are of the view that it does not result in any material adverse impacts on the Group's production. However, due to the worsening situation of the Epidemic in overseas markets, our sales and profit have suffered adverse impacts to a certain extent. Based on the development of the Epidemic outside the PRC, we will adjust our sales model in time. We expect that the development of the Epidemic will not result in significant adverse impacts to the Group's continuing operation.

Human Resources and Training

As at 30 June 2020, the Group had a total of 384 employees, total staff cost for the Reporting Period amounted to approximately RMB9.8 million (2019: approximately RMB10.1 million). The Group releases an annual sales guideline at the beginning of each year, formulates the sales strategies and sets out the sales targets of different sales areas after discussing with sales representatives. At the end of each year, the Group makes performance appraisal for sales personnel based on the review results and the achievement of sales target.

During the 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 makes adjustments to their salaries and bonuses accordingly based on individual performance, qualifications, experience, skills and the contributions made to the Group.

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 Reorganisation for the Listing of 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. Under the Share Offer, 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 2020, 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	Interest in controlled corporation *(Note 2)*	Spring Sea	472,848,000 (L)	59.11%
Ms. Song Xiaoying	Interest in controlled corporation *(Note 2)*	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.

(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 2020, 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 2020, 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 2020, 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	Beneficial owner *(Note 2)*	472,848,000 (L)	59.11%
Summer Land Star Investment Limited	Beneficial owner	121,602,000 (L)	15.20%
Wang Yun	Interest in controlled corporation *(Note 3)*	103,787,000 (L)	12.97%

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.

3. Ms. Wang Yun was interested in approximately 73.55% of the issued share capital of Summer Land Star Investment Limited ("**Summer Land**"). Therefore, Ms. Wang Yun was deemed to be interested in the same number of shares held by Summer Land.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 30 June 2020, 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 2020, 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 2020 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 2020 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 and during the six months ended 30 June 2020.

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.

Interest of Compliance Adviser

As notified by Cinda International Capital Limited ("**Cinda**"), other than the Compliance Advisers Agreement, 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.

Change in Use of Net Proceeds from the Listing and Actual Utilised Amount

The Shares of the Company were listed on GEM of the Stock Exchange on 26 February 2019. Net proceeds from the Share Offer were approximately RMB37.9 million (equivalent to approximately HK$44.7 million), after deduction of the underwriting commission and relevant expenses.

As disclosed in the announcement of the Company dated 29 April 2020 (the "**Announcement**"), it was planned that the Group would use approximately RMB8.5 million of the Net Proceeds, as set forth in the Prospectus, to construct a new weaving factory on the parcel of land owned by the Group situated at Hongqi Village, Jiapu Town, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣夾浦鎮紅旗村) (currently known as Binhu Village, Jiapu Town, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣夾浦鎮濱湖村)) (the "**Hongqi Village Land**"). As disclosed in the 2019 annual report of the Company, there was a delay in the use of proceeds as to the construction of a new weaving factory as at 31 December 2019 due to more time required for obtaining the requisite government approval for building the factory. However, on 20 April 2020, the Company received an official notice from the People's Government of Jiapu Town, Changxing County* (長興縣夾浦鎮人民政府) that no new factories other than buildings for non-productive operations, such as offices or research and development centres can be built on the Hongqi Village Land, otherwise no permission would be given for construction projects on it. In view of the change in land use, the Board considered that it is no longer feasible to utilise the remaining balance of the net proceeds of approximately RMB8.5 million (the "**Unutilised Net Proceeds**") for construction of the new weaving factory at Hongqi Village Land.

Taking into account the recent outbreak of the Epidemic, which caused adverse effects on the PRC domestic and global economy and slowed down the PRC domestic and international trade of textile products since the first quarter in 2020, the Company considers that it would not be cost-effective for the Group to find an alternative parcel of land to construct the new weaving factory in the foreseeable future. Accordingly, the Company decided to utilise the Unutilised Net Proceeds for other purpose of the Group's business.

In view of (i) the increase in demand for meltblown fabrics; (ii) the launch of the "Face Mask Production Subsidy Scheme" by Changxing County government eligible for application by the Group; and (iii) the increased application of meltblown fabrics in various applications including medical protection equipment such as face masks, home furnishing products, apparels, industrial textile products and other products, the Board has resolved to change the use of the Unutilised Net Proceeds to purchase part of the meltblown fabric production lines. The meltblown fabrics production lines can be used to produce meltblown fabrics, which are one of the raw materials of a wide variety of products, such as the filters of face masks, industrial textile products, apparels, home furnishing products and other disposable products.

* *For identification purpose only*

An updated breakdown of the revised use of the net proceeds and the actual utilised amount as at 30 June 2020 are summarised as follows:

	Planned use of the net proceeds as disclosed in the Prospectus *(RMB million)*	Revised use of the net proceeds as disclosed in the Announcement *(RMB million)*	Amount utilised during the six months ended 30 June 2020 *(RMB million)*	Actual utilised amount as at 30 June 2020 *(RMB million)*	Unutilised amount as at 30 June 2020 *(RMB million)*
Construction of new weaving factory	8.5	–	–	–	–
Renovation of the existing weaving factory	5.2	5.2	–	5.2	–
Acquisition of machinery, equipment and ancillary facilities for weaving	10.4	10.4	–	10.4	–
Acquisition of machinery, equipment and ancillary facilities for printing and dyeing	4.6	4.6	–	2.5	2.1
Enhancement of environmental protection infrastructure	5.4	5.4	0.1	5.4	–
General working capital	3.8	3.8	–	3.8	–
Purchase of meltblown fabrics production lines	–	8.5	8.5	8.5	–
Total	37.9	37.9	8.6	35.8	2.1

The unutilised amount of Net Proceeds for acquisition of machinery, equipment and ancillary facilities for printing and dyeing of approximately RMB2.1 million is expected to be completely utilised by December 2020.

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 2020 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 2020 and up to the date of this report.

Change of Auditor

In the year ended 31 December 2018, the Company appointed Deloitte Touche Tohmatsu ("**Deloitte**") as the auditor of the Company. As disclosed in the announcement of the Company dated 7 January 2020, Deloitte resigned as the auditor of the Company by tendering resignation. The Board and the Audit Committee of the Company confirmed that there was no disagreement or unresolved matters between the Company and Deloitte which should be brought to the attention of the Shareholders. On the same date, the Board had resolved to appoint KPMG as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor. At the annual general meeting of the Company held on 14 May 2020, KPMG was re-appointed by the Shareholders as the auditor of the Company.

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. Song Jun 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 2020 with the management of the Group and agreed with the accounting treatments adopted by the Company, and was of the opinion that the preparation the financial statements in this interim report complies with the applicable accounting standards and the requirements under the GEM Listing Rules and adequate disclosures have been made.

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 2020 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 2020

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. Song Jun and Mr. Yu Chung Leung.