



**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

2021 **THIRD QUARTERLY
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**”, “**we**”, “**our**” or “**us**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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
(resigned on 31 May 2021)

Independent Non-executive Directors

Mr. Song Jun
 Dr. Liu Bo
 Mr. Yu Chung Leung

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Registered Office

Windward 3, Regatta Office Park
 PO Box 1350
 Grand Cayman KY1-1108
 Cayman Islands

Headquarters and Principal Place of Business in PRC

Jiapu Economic Development Area
 Changxing County
 Huzhou City
 Zhejiang Province
 PRC

Company's Website

www.narnia.hk

Principal Place of Business in Hong Kong

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

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
 Level 54, Hopewell Centre
 183 Queen's Road East
 Hong Kong

Legal Advisers

(as to Hong Kong law)
 ONC Lawyers
 19th Floor, Three Exchange Square
 8 Connaught Place, Central
 Hong Kong

Auditor

KPMG
Certified Public Accountants
 Public Interest Entity Auditor registered
 in accordance with the Financial Reporting
 Council Ordinance
 8th Floor, Prince's Building
 10 Chater Road, Central
 Hong Kong

Compliance Adviser

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

Principal Bankers

Zhejiang Changxing Rural Commercial
 Bank Company Limited
 No. 1298 Mingzhu Road
 Taihu Street
 Changxing County
 Zhejiang Province
 PRC

Industrial and Commercial Bank of
 China Limited
 Changxing Branch
 No. 218 Jinling Middle Road
 Zhicheng Town
 Changxing County
 Zhejiang Province
 PRC

Stock Code

8607

RESULTS HIGHLIGHTS

For the nine months ended 30 September 2021, the results highlights were as follows:

- Revenue increased by 30.4% to approximately RMB249.7 million (2020: approximately RMB191.5 million).
- Gross profit increased by 61.6% to approximately RMB27.8 million (2020: approximately RMB17.2 million).
- Gross profit margin was approximately 11.1% (2020: approximately 9.0%).
- Profit attributable to the equity holders of the Company for the nine months ended 30 September 2021 was approximately RMB4.8 million (2020: loss attributable to the equity holders of the Company was approximately RMB16.1 million).
- Basic earnings per share was approximately RMB0.60 cents (2020: basic loss per share was approximately RMB2.01 cents).
- The Board resolved not to recommend the payment of any interim dividend for the nine months ended 30 September 2021 (2020: nil).

UNAUDITED CONSOLIDATED THIRD QUARTERLY RESULTS OF 2021

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 nine months ended 30 September 2021 (the “**Reporting Period**”) and selected explanatory notes, together with the comparative figures of the corresponding period in 2020 as follows:

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

For the nine months ended 30 September 2021

	Note	Three months ended 30 September		Nine months ended 30 September	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	5	84,981	72,030	249,674	191,495
Cost of sales and services		(76,792)	(61,456)	(221,837)	(174,319)
Gross profit		8,189	10,574	27,837	17,176
Other income	6	426	750	2,819	3,871
Other gains and losses	7	(1,497)	(6,022)	(3,729)	(16,820)
Selling and distribution expenses		(887)	(392)	(2,845)	(1,630)
Administrative expenses		(1,965)	(1,195)	(7,435)	(7,855)
Research expenditure		(2,307)	(2,697)	(7,250)	(7,475)
Other expenses		(211)	198	(211)	(93)
Finance costs	8	(1,108)	(1,310)	(3,261)	(3,996)
Profit/(loss) before tax		640	(94)	5,925	(16,822)
Income tax (expense)/credit	9	(154)	14	(1,116)	732
Profit/(loss) for the period attributable to the equity holders of the Company		486	(80)	4,809	(16,090)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss) for the period attributable to the equity holders of the Company		486	(80)	4,809	(16,090)
Earnings/(loss) per share – Basic and diluted (RMB cents)	10	0.06	(0.01)	0.60	(2.01)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2021

	Attributable to owners of the Company					Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	
At 1 January 2020	5,346	36,523	11,407	76,907	40,964	171,147
Loss and total comprehensive loss for the period	-	-	-	-	(16,090)	(16,090)
At 30 September 2020	5,346	36,523	11,407	76,907	24,874	155,057
At 1 January 2021	5,346	36,523	11,424	77,055	31,049	161,397
Profit and total comprehensive income for the period	-	-	-	-	4,809	4,809
At 30 September 2021	5,346	36,523	11,424	77,055	35,858	166,206

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2021

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 Windward 3, Regatta Office Park, PO Box 1350, 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)**") were listed on GEM of the Stock Exchange on 26 February 2019 (the "**Listing**").

These unaudited condensed 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 financial information of the Group for the nine months ended 30 September 2021 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 GEM Listing Rules.

The basis of preparation and accounting policies adopted in preparing this unaudited condensed consolidated quarterly financial information are consistent with those adopted in the preparation of the Group's audited annual financial statements for the year ended 31 December 2020, except for the adoption of the new and revised IFRSs that have become effective for its accounting period beginning on 1 January 2021.

The adoption of the new and revised IFRSs has no significant effect on this unaudited condensed consolidated quarterly 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 quarterly 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 quarterly financial statements have not been audited by the 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. Accounting Policies

The accounting policies applied for this unaudited condensed consolidated financial information of the Group for the nine months ended 30 September 2021 are consistent with those of the audited annual financial statements for the year ended 31 December 2020, 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 2021 do not have a material impact on the results and financial position of the Group.

Taxes on income in the Reporting Period 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 the Reporting 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 People's Republic of China (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:

	Nine months ended	
	30 September	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of fabric products, recognised at a point in time	101,603	100,222
Service revenue from printing and dyeing, recognised over time	148,071	91,273
Total	249,674	191,495

5. Revenue (continued)

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 (2020: 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 (2020: 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

	Nine months ended	
	30 September	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income	294	261
Government subsidies (<i>Note</i>)	1,333	2,018
Dividend received from financial asset mandatorily measured at FVTPL	1,021	1,097
Rental income	152	143
Others	19	352
Total	2,819	3,871

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

	Nine months ended 30 September	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	(750)	–
Net loss on sales of raw materials	(1,685)	(12,716)
Net exchange losses	(694)	(4,108)
Others	(600)	4
Total	(3,729)	(16,820)

8. Finance Costs

	Nine months ended 30 September	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	3,261	3,996

9. Income Tax (Expense)/Credit

	Nine months ended 30 September	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax (expense)/credit	(1,116)	1,236
Deferred tax charge	–	(504)
Total	(1,116)	732

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 nine months ended 30 September 2021 and 2020. Provision for the PRC Enterprise Income Tax during the nine months ended 30 September 2021 and 2020 was made based on the estimated taxable profits/(loss) 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 the Implementation Regulations of the EIT Law, the statutory income tax rate for PRC entities is 25%, therefore, the tax rate of Changxing Seashore Industrial Co., Ltd.* (長興濱里實業有限公司) (“Changxing Seashore”) and Zhejiang Xiuhu Supply Chain Co., Ltd* (浙江鑫湖供應鏈有限公司) is 25%.

* English name is for identification purpose only.

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

Huzhou Litu Import and Export Co., Ltd* (湖州利拓進出口有限公司) is recognised as a small profit enterprise in 2021, the portion of annual taxable income amount, which does not exceed RMB1 million, shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20%. And the portion of annual taxable income, which exceeds RMB1 million but does not exceed RMB3 million, shall be computed at a reduced rate of 50% as taxable income amount, and be subject to enterprise income tax at 20%.

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

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

The income tax (expense)/credit for the nine months ended 30 September 2021 can be reconciled to the profit/(loss) before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Nine months ended	
	30 September	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit/(loss) before tax	5,925	(16,822)
Tax at PRC EIT rate of 25%	(1,481)	4,206
Tax effect of expense not deductible for tax purpose	(320)	(672)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	745	(660)
Income taxed at concessionary rate	488	(1,468)
Tax effect of deductible temporary difference	(298)	(798)
Tax effect of income not taxable for tax purpose	(250)	124
Income tax (expense)/credit	(1,116)	732

* English name is for identification purpose only.

10. Earnings/(Loss) Per Share

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

	Nine months ended	
	30 September	
	2021	2020
	(Unaudited)	(Unaudited)
Earnings/(loss):		
Profit/(loss) for the period attributable to the equity holders of the Company for the purpose of basic earnings/(loss) per Share <i>(RMB'000)</i>	4,809	(16,090)
Number of Shares:		
Number of ordinary Shares for the purpose of basic earnings/(loss) per Share	800,000,000	800,000,000
Basic earnings/(loss) per Share <i>(RMB cents per Share)</i>	0.60	(2.01)

The calculation of basic earnings/(loss) per share is based on the profit for the period attributable to the equity holders of the Company of approximately RMB4,809,000 (2020: loss of approximately RMB16,090,000) and the number of 800,000,000 ordinary shares (2020: 800,000,000) in issue during the Reporting Period.

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

11. Dividends

The Board resolved not to recommend the payment of any dividend for the nine months ended 30 September 2021 (2020: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, we continued to focus on strengthening our core business of dyeing and processing textile products, while we also commenced the production of meltblown fabrics. In addition to maintaining and increasing market share for our major products with a dominating advantage, we actively increased the application of meltblown fabrics. Besides maintaining business relationships with our current customers, we have also spent a lot of effort in seeking new customers to increase our market share.

The Group recorded a net profit of approximately RMB4.8 million for the Reporting Period, as compared to the net loss of approximately RMB16.1 million for the nine months ended 30 September 2020. The turnaround from loss to profit is mainly attributable to (i) an increase in the Group's turnover and gross profit for the Reporting Period as compared to the nine months ended 30 September 2020 as a result of the market recovery from the outbreak of the COVID-19 epidemic (the "**Epidemic**"); (ii) a decrease in net loss on sales of raw materials of approximately RMB11.0 million for the Reporting Period as compared to the nine months ended 30 September 2020; and (iii) a decrease in net exchange loss of approximately RMB3.4 million for the Reporting Period as compared to the nine months ended 30 September 2020.

During the Reporting Period, we increased promotional efforts to explore business opportunities for our new products. A market for eco-friendly functional fabric products has been formed, as domestic and overseas customers have started the application of such products with positive response. The meltblown fabric production line, which commenced operation in 2020, has been continuously giving stable and quality output to meet the increasing market demand. 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 has begun to reach scale. Products from the newly added meltblown fabric business line are exported overseas with demands exceeding the Group's supply. In this regard, as the meltblown fabrics are used in anti-Epidemic products such as face masks, the Group contributed to the global fight against the Epidemic.

The Group put strong emphasis on the investment in research and development of new products and technology. During the Reporting Period, the Group continued our research and development of environmental-friendly functional fabrics.

Financial Review

Revenue

Our total revenue was approximately RMB249.7 million for the nine months ended 30 September 2021 (2020: approximately RMB191.5 million), representing an increase of approximately RMB58.2 million or 30.4% as compared to the nine months ended 30 September 2020. The increase in revenue was mainly due to the gradual recovery of market demand due to the control of the Epidemic during the Reporting Period as compared to the nine months ended 30 September 2020.

	Nine months ended 30 September			
	2021		2020	
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Sales of fabric products, recognised at a point in time	101,603	40.7	100,222	52.3
Service revenue from printing and dyeing, recognised over time	148,071	59.3	91,273	47.7
Total	249,674	100.0	191,495	100.0

Revenue from the sales of fabrics remained relatively stable at approximately RMB101.6 million for the nine months ended 30 September 2021 as compared to approximately RMB100.2 million for the nine months ended 30 September 2020 with total volume of fabrics sold at approximately 21.5 million metres for the nine months ended 30 September 2021 as compared to approximately 21.3 million metres for the nine months ended 30 September 2020.

Revenue from printing and dyeing services increased by approximately RMB56.8 million or 62.2% from approximately RMB91.3 million for the nine months ended 30 September 2020 to approximately RMB148.1 million for the nine months ended 30 September 2021 which was primarily attributable to the increased sales orders for printing and dyeing services from our customers during the Reporting Period.

Cost of sales and services

Cost of sales and services primarily comprises (i) raw materials and other inventory costs, (ii) utility costs, (iii) direct labour costs; and (iv) depreciation. The cost of sales and services increased from approximately RMB174.3 million for the nine months ended 30 September 2020 to approximately RMB221.8 million for the nine months ended 30 September 2021, representing an increase of approximately RMB47.5 million or 27.3%. The increase in cost of sales and services was mainly due to the increase in the total production volume of the Group during the nine months ended 30 September 2021 as compared to that in the nine months ended 30 September 2020.

Gross profit and gross profit margin

Our gross profit was approximately RMB27.8 million for the nine months ended 30 September 2021 (2020: approximately RMB17.2 million). The Group's gross profit margin increased from approximately 9.0% for the nine months ended 30 September 2020 to approximately 11.1% for the nine months ended 30 September 2021. The increase in gross profit margin was a result of significant increase by approximately 30.4% in revenue while costs of sales and services increased by approximately 27.3% as compared to the same period in 2020.

Other income

Our other income was approximately RMB2.8 million for the nine months ended 30 September 2021 (2020: approximately RMB3.9 million). The decrease of approximately RMB1.1 million for the nine months ended 30 September 2021 compared to that for the nine months ended 30 September 2020 was mainly due to the decrease in government subsidies.

Other gains and losses

Our other losses was approximately RMB3.7 million for the nine months ended 30 September 2021 (2020: approximately RMB16.8 million). The decrease of approximately RMB13.1 million for the nine months ended 30 September 2021 compared to that for the nine months ended 30 September 2020 was mainly due to the decrease in both net loss on sale of some out-dated raw materials of approximately RMB11.0 million and net exchange loss of approximately RMB3.4 million, which was partially off-set by the increase in loss on disposal of property, plant and equipment of approximately RMB0.8 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 RMB1.2 million or approximately 75.0% from approximately RMB1.6 million for the nine months ended 30 September 2020 to approximately RMB2.8 million for the nine months ended 30 September 2021. 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 decreased by approximately RMB0.5 million or approximately 6.3% from approximately RMB7.9 million for the nine months ended 30 September 2020 to approximately RMB7.4 million for the nine months ended 30 September 2021. 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 RMB7.3 million for the nine months ended 30 September 2021 (2020: approximately RMB7.5 million). The expenditure comprised (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 RMB0.2 million was mainly due to the decrease in direct usage of different materials during the testing and analysing process.

Finance costs

For the nine months ended 30 September 2021, our finance costs amounted to approximately RMB3.3 million (2020: approximately RMB4.0 million). Our finance costs mainly comprised the interest expenses on our bank and other borrowings. The finance cost decreased by approximately RMB0.7 million or 17.5% as compared to that of last year, mainly as a result of the decrease in bank borrowings and reduction in bank interest rate.

Income tax (expense)/credit

Income tax (expense)/credit represents our total current and deferred tax (expense)/credit. The current tax is calculated based on taxable profits/(losses) 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 fair value through profit or loss ("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 EIT Law and the Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Huzhou Narnia is recognised as a High and New Technology Enterprise (高新技術企業) and therefore entitled to a preferential tax rate of 15% in 2021 (2020: 15%).

The income tax expense for the nine months ended 30 September 2021 was approximately RMB1.1 million, when compared to an income tax credit of approximately RMB0.7 million for the nine months ended 30 September 2020. The income tax credit was mainly due to the loss before income tax. The details are set out in Note 8 to the financial statements.

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

As a result of the foregoing, our profit and other total comprehensive income for the period attributable to the equity holders of the Company for the nine months ended 30 September 2021 was approximately RMB4.8 million, while there was a loss of approximately RMB16.1 million for the nine months ended 30 September 2020.

Dividends

The Board resolved not to recommend the payment of any dividend for the nine months ended 30 September 2021 (2020: nil).

Future Outlook

Looking ahead, market competition is expected to remain fierce as the global impact of the Epidemic is expected to be long-lasting, while the domestic and international economic environment is expected to continue to be complex and volatile. In addition to keeping focus on our core business, the Group will also continue to develop our anti-epidemic material production business, maintain and increase market share for our major products with a dominating advantage, and actively increase the application of meltblown fabrics.

In the last quarter of 2021, market competition is expected to be even more intense and is expected to feature more challenges and uncertainties. Facing this new landscape, the Group will remain steadfast in being market-oriented, united and industrious; the Group will continue to build up its risk awareness and innovative mindset, promote its spirit of sincere partnership, co-innovation and sharing, in order to take the Group'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;
- (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; and
- (4) Further increasing the application of meltblown fabrics, including but not limited to various surgical masks, disposable towels, bath towels and other cleaning products, and facial masks.

Human Resources and Training

As at 30 September 2021, the Group had a total of 417 employees, total staff cost for the Reporting Period amounted to approximately RMB15.4 million (2020: approximately RMB14.0 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

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 September 2021, 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:

- The letter (L) denotes a person’s “long position” (as defined under Part XV of the SFO) in such Shares.
- 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 September 2021, 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 September 2021, 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 September 2021, 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 <i>(Note 1)</i>	Approximate percentage of the Company's total issued share capital
Spring Sea	Beneficial owner <i>(Note 2)</i>	472,848,000 (L)	59.11%
Summer Land Star Investment Limited	Beneficial owner <i>(Note 3)</i>	121,602,000 (L)	15.20%
Wang Yun	Interest in controlled corporation <i>(Note 3)</i>	103,787,000 (L)	12.97%

Notes:

- The letter (L) denotes a person's/corporation's "long position" (as defined under Part XV of the SFO) in the Shares.
- 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.
- 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 September 2021, 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 September 2021, 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 nine months ended 30 September 2021 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 nine months ended 30 September 2021 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 of the Company 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 nine months ended 30 September 2021.

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.

Interest of Compliance Adviser

As notified by Cinda International Capital Limited ("**Cinda**"), the Company's compliance adviser, other than the compliance adviser agreement dated 27 August 2018, 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 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 (as defined in the prospectus of the Company dated 13 February 2019 (the “**Prospectus**”)) were approximately RMB37.9 million (equivalent to approximately HK\$44.7 million), after deduction of the underwriting commission and relevant expenses. As disclosed in the announcement of the Company dated 29 April 2020 (the “**Announcement**”), there had been a change in use of the net proceeds from the Listing. Please refer to the Announcement for further details. As at 30 September 2021, the Group had utilised approximately RMB35.8 million of the net proceeds and the remaining balance of the net proceeds is approximately RMB2.1 million, details of which are set out in the table below:

	Planned use of the net proceeds as disclosed in the Prospectus (RMB million)	Revised use of the net proceeds as disclosed in the Announcement (RMB million)	Actual utilised amount during the nine months ended 30 September 2021 (RMB million)	Actual utilised amount as at 30 September 2021 (RMB million)	Unutilised amount as at 30 September 2021 (RMB million)	Expected timeline of utilisation
Construction of new weaving factory	8.5	-	-	-	-	-
Renovation of the existing weaving factory	5.2	5.2	-	5.2	-	-
Acquisition of machinery, equipment and ancillary facilities for weaving	10.4	10.4	-	10.4	-	-
Acquisition of machinery, equipment and ancillary facilities for printing and dyeing	4.6	4.6	-	2.5	2.1	November 2021
Enhancement of environmental protection infrastructure	5.4	5.4	-	5.4	-	-
General working capital	3.8	3.8	-	3.8	-	-
Purchase of meltblown fabrics production lines	-	8.5	-	8.5	-	-
Total	37.9	37.9	-	35.8	2.1	

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 nine months ended 30 September 2021 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 nine months ended 30 September 2021 and up to the date of this report.

Review by Audit Committee

The Company 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 the 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 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 quarterly report of the Company for the nine months ended 30 September 2021 and agreed with the accounting treatments adopted by the Company, and was of the opinion that the preparation of the financial statements in this quarterly 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 event after the Reporting Period as at the date of this report.

Disclosure of Information

The quarterly report for the nine months ended 30 September 2021 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, 12 November 2021

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