



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

2023
FIRST 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. Yeung Yiu Wah Francis
 (appointed on 18 January 2023)

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

Principal Share Registrar and Transfer Office in the Cayman Islands

Ocorian Trust (Cayman) Limited
 Windward 3
 Regatta Office Park
 PO Box 1350
 Grand Cayman KY1-1108
 Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
 17/F, Far East Finance Centre
 16 Harcourt Road
 Hong Kong

Legal Adviser

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

Auditor

Moore Stephens CPA Limited
Registered Public Interest Entity Auditor
 801-806 Silvercord, Tower 1
 30 Canton Road
 Tsim Sha Tsui, Kowloon
 Hong Kong

Principal Bankers

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

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

Stock Code

8607

RESULTS HIGHLIGHTS

For the three months ended 31 March 2023, the results highlights were as follows:

- Revenue decreased by 45.7% to approximately RMB42.1 million (2022: approximately RMB77.5 million).
- Gross profit decreased by 63.1% to approximately RMB2.4 million (2022: approximately RMB6.5 million).
- Gross profit margin was approximately 5.7% (2022: approximately 8.4%).
- Loss attributable to the equity holders of the Company for the three months ended 31 March 2023 was approximately RMB5.7 million (2022: profit attributable to the equity holders of the Company was approximately RMB1.1 million).
- Basic losses per share was approximately RMB0.72 cents (2022: basic earnings per share was approximately RMB0.14 cents).
- The Board resolved not to recommend payment of any dividends for the three months ended 31 March 2023 (2022: nil).

UNAUDITED CONSOLIDATED FIRST QUARTERLY RESULTS OF 2023

The board (the “Board”) of Directors of the Company is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2023 (the “Reporting Period”) and selected explanatory notes, together with the comparative figures of the corresponding period in 2022 as follows:

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

For the three months ended 31 March 2023

		Three months ended	
		31 March	
	<i>Note</i>	2023	2022
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3	42,085	77,456
Cost of sales and services		(39,671)	(70,972)
Gross profit		2,414	6,484
Other income and other net (loss)/gain	5	(2,302)	1,223
Selling and distribution expenses		(647)	(1,175)
Administrative expenses		(3,341)	(2,758)
Research expenditure		(2,062)	(1,544)
Finance costs	6	(821)	(997)
(Loss)/profit before income tax		(6,759)	1,233
Income tax credit/(expense)	7	1,014	(109)
(Loss)/profit for the period attributable to the equity holders of the Company		(5,745)	1,124
Other comprehensive income		–	–
Total comprehensive (loss)/profit for the period attributable to the equity holders of the Company		(5,745)	1,124
(Losses)/earnings per share			
– Basic and diluted (<i>RMB cents</i>)	8	(0.72)	0.14
Dividends	9	–	–

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2023

	(Unaudited)						Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Other reserve RMB'000	(Accumulated losses)/ retained profits RMB'000	
At 1 January 2022	5,346	36,523	11,428	219	76,907	(669)	129,754
Profit and total comprehensive income for the period	-	-	-	-	-	1,124	1,124
At 31 March 2022	5,346	36,523	11,428	219	76,907	455	130,878
At 1 January 2023	5,346	36,523	11,624	23	76,907	(4,019)	126,404
Loss and total comprehensive loss for the period	-	-	-	-	-	(5,745)	(5,745)
At 31 March 2023	5,346	36,523	11,624	23	76,907	(9,764)	120,659

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2023

1. General Information

Narnia (Hong Kong) Group Company Limited was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act (as revised) 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 (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 have been listed on GEM of the Stock Exchange on 26 February 2019 (the "**Listing**").

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

2. Basis of Preparation of the Financial Statements

The unaudited condensed consolidated financial statements of the Group for the three months ended 31 March 2023 have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as the applicable disclosure requirement Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited.

The basis of preparation and accounting policies adopted in preparing these unaudited condensed consolidated financial statements are consistent with those adopted in the preparation of the Group’s audited annual financial statements for the year ended 31 December 2022, except for the adoption of the new and revised HKFRSs that have become effective for its accounting period beginning on 1 January 2023.

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

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

3. Revenue

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

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

	Three months ended	
	31 March	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of fabric products, recognised at a point in time	17,133	41,134
Revenue from printing and dyeing services, recognised over time	24,952	36,322
Total	42,085	77,456

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 (2022: 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 (2022: 30 to 90 days) upon the completion of services.

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

4. Segment Information

Information reported to the executive Directors of the Company, 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. Other Income and Other Net (Loss)/Gain

	Three months ended 31 March	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest income	3	3
Government subsidies (<i>Note</i>)	1	279
Net (loss)/gain on sales of raw materials	(116)	87
Dividend received from financial asset mandatorily measured at fair value through profit or loss ("FVTPL")	–	1,021
Net exchange loss	(1,636)	(135)
Others	(554)	(32)
Total	(2,302)	1,223

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

6. Finance Costs

	Three months ended	
	31 March	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	821	997
Total	821	997

7. Income Tax Credit/(Expense)

	Three months ended	
	31 March	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax ("EIT")	1,014	(109)
Deferred tax charge	-	-
Total income tax credit/(expense)	1,014	(109)

No provision for Hong Kong Profits Tax was made in the consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax during the three months ended 31 March 2023 and 2022.

Provision for the EIT during the three months ended 31 March 2023 and 2022 was made based on the estimated assessable (losses)/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") and Zhejiang Xinhua Supply Chain Co., Ltd.* 浙江鑫湖供應鏈有限公司 is 25%.

Huzhou Lituo Import and Export Co., Ltd.* 湖州利拓進出口有限公司 is recognised as a small profit enterprise in 2023, 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%.

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

Huzhou Narnia Industry Co. Ltd.* (“**Huzhou Narnia**”) (湖州納尼亞實業有限公司) 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 and therefore entitled to a preferential tax rate of 15% in 2023 (2022: 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 for the Reporting Period can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Three months ended	
	31 March	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/profit before tax	(6,759)	1,233
Tax at PRC EIT rate of 25%	1,690	(308)
Tax effect of expense not deductible for tax purpose	(268)	(392)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	215	290
Income taxed at concessionary rate	(623)	301
Income tax credit/(expense)	1,014	(109)

* English name is for identification purpose only.

8. (Losses)/earnings Per Share

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

	Three months ended	
	31 March 2023 (Unaudited)	2022 (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)	(5,745)	1,124
Number of shares: Weighted average number of ordinary shares for the purpose of basic (losses)/earnings per share	800,000,000	800,000,000
Basic (losses)/earnings per share (RMB cents per share)	(0.72)	0.14

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

9. Dividends

The Board resolved not to recommend payment of any dividends for the three months ended 31 March 2023 (2022: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, the Group continued to support the Government's green low carbon and circular development vision, and has implemented a comprehensive upgrade and overhaul which strictly followed rectification standards for printing and dyeing enterprises, and was among the first to pass rectification inspection for printing and dyeing enterprises in Changxing county. The Group comprehensively improved general environmental governance in areas such as enterprise environmental protection, fire safety and emergency response, and also achieved energy conservation and emissions reduction, significantly promoting healthy, green and sustainable development of our enterprise.

Faced with an everchanging macro-environment and market conditions, the Group maintained a market-oriented approach and further invested in technological innovation for product research and development, in order to develop new technologies, techniques and products. The Group continued to optimise product structure to satisfy diverse market and customer needs.

During the past years, the Group comprehensively optimised operations, accelerated industrial transformation upgrading, and continued to carry out synergistic and innovative developments across the industrial chain to maximise resource integration. In addition, based on current industry requirements, the Group actively responded to the government's policy in relation to the phasing out of water injectors on account of the core principles of green manufacturing, energy saving and carbon reduction, and digital production, and adjusted the strategic plans of Changxing Seashore in a scientific manner.

The Group is committed to maintaining a high standard of corporate governance to the greatest extent as far as practicable, with an emphasis on principles of integrity, transparency, accountability, and fairness. The Board believes that good corporate governance is crucial to the success of the Group and the creation of Shareholders' value. While striving to maintain a high standard of corporate governance, the Board is also committed to creating value and maximizing returns for our Shareholders. The Board will continue to review and improve the quality of corporate governance practices with reference to local and international standards. The Group also welcomes any feedback suggestions from the Shareholders, which help to raise the Group's transparency.

Financial Review

Revenue

Our total revenue was approximately RMB42.1 million for the three months ended 31 March 2023 (2022: approximately RMB77.5 million), representing a decrease of 45.7% as comparing with the revenue of the Reporting Period with the corresponding period of last year. The decrease in revenue was mainly due to the decrease in sales volume during the Reporting Period.

Revenue from the sales of fabrics decreased by approximately RMB24.0 million or 58.4% from approximately RMB41.1 million for the three months ended 31 March 2022 to approximately RMB17.1 million for the three months ended 31 March 2023, reflecting the decrease in total volume of fabrics sold from approximately 7.7 million metres for the three months ended 31 March 2022 to approximately 3.6 million metres for the three months ended 31 March 2023.

With a view to diversifying our source of revenue, the Group also provided printing and dyeing services in the PRC. The decrease in revenue from printing and dyeing services of approximately RMB11.3 million or 31.1% from approximately RMB36.3 million for the three months ended 31 March 2022 to approximately RMB25.0 million for the three months ended 31 March 2023 was primarily attributable to the decreased sales orders for printing and dyeing services from the Group's existing customers for the Reporting Period.

Cost of sales and services

Cost of sales and services primarily comprises of (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 RMB71.0 million for the three months ended 31 March 2022 to approximately RMB39.7 million for the three months ended 31 March 2023, representing a decrease of approximately 44.1%. Such decrease was mainly attributable to the decrease in the costs of raw materials and other inventory costs which was in line with the decrease in sales volume during the Reporting Period.

Gross profit and gross profit margin

Our gross profit was approximately RMB2.4 million for the three months ended 31 March 2023 (2022: approximately RMB6.5 million). The overall gross profit margin of our sales and services decreased from approximately 8.4% for the three months ended 31 March 2022 to approximately 5.7% for the three months ended 31 March 2023.

Other income and other net (loss)/gain

Our other income and other net (loss)/gain was a loss of approximately RMB2.3 million for the three months ended 31 March 2023 (2022: a gain of approximately RMB1.2 million). The loss mainly comprises of net exchange loss of approximately RMB1.6 million for the Reporting Period. The gain for the three months ended 31 March 2022 mainly comprises of the dividend received from financial assets mandatorily measured at FVTPL of approximately RMB1.0 million.

Selling and distribution expenses

Our selling and distribution expenses principally comprise (i) transportation expenses charged by logistics companies for delivery of our products from warehouse to our customers' designated point; (ii) packaging expenses; (iii) exhibition expenses; and (iv) export fees. Our selling and distribution expenses decreased by approximately RMB0.6 million or 50.0% from approximately RMB1.2 million for the three months ended 31 March 2022 to approximately RMB0.6 million for the three months ended 31 March 2023. The decrease was mainly due to a decrease in transportation expenses.

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 was approximately RMB3.3 million for the three months ended 31 March 2023 which represents an increase of approximately RMB0.5 million or 17.9% when compared to approximately RMB2.8 million for the three months ended 31 March 2022.

Research expenditure

The Group has been focusing on research and development of efficient and environmental-friendly technology for textile printing and dyeing. The Group carried out its research and development projects at its laboratory in the Huzhou Production Facilities. The Group's research expenditure was approximately RMB2.1 million for the three months ended 31 March 2023 (2022: approximately RMB1.5 million). The expenditure comprised of (i) the costs of the staff involving in the Group's research and development projects; (ii) the direct usage of raw materials for pilot-run of production and testing purpose; and (iii) the depreciation of the research and development machinery and equipment. The increase of approximately RMB0.6 million was mainly due to the increase in direct usage of different materials during the testing and analysing process.

Finance costs

For the three months ended 31 March 2023, the Group's finance costs amounted to approximately RMB0.8 million (2022: approximately RMB1.0 million). The Group's finance costs mainly comprised of the interest expenses on the Group's bank and other borrowings. The finance cost for the Reporting Period of approximately RMB0.8 million decreased by approximately RMB0.2 million or 20.0% when compared to approximately RMB1.0 million for the three months ended 31 March 2022.

Income tax credit/(expenses)

Income tax credit represent the Group's total current and deferred tax credit. The current taxes are calculated based on taxable 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 FVTPL and allowance for bad and doubtful debts.

The income tax credit for the three months ended 31 March 2023 was approximately RMB1.0 million mainly as a result of the loss before taxation and the Group's income tax expenses was approximately RMB0.1 million for the three months ended 31 March 2022. The details are set out in Note 7 to the unaudited condensed consolidated financial statements in this report.

(Loss)/profit for the period attributable to the equity holders of the Company

As a result of the foregoing, the loss for the period attributable to the equity holders of the Company was approximately RMB5.7 million for the three months ended 31 March 2023, while there was a profit of approximately RMB1.1 million for the three months ended 31 March 2022.

Dividends

The Board resolved not to recommend payment of any dividends for the three months ended 31 March 2023 (2022: nil).

Future Outlook

Looking ahead, despite the presence of challenges and uncertainties hampering China's economic growth, the market is set to recover with the end of the pandemic. The Group remains optimistic about business prospects and resumption of economic growth. Stability and robust growth are key for the economy in 2023. The Group will focus on our development strategies as we strive to maintain our position as leaders amidst keen competition.

The Group will continue to optimise our R&D system, promote sustained research and technology R&D, strengthen our market-oriented innovative capability, and further explore R&D of new products, in order to satisfy the needs of our customers for new functional fabrics which integrate environmentally friendly elements, and in turn enlarge our customer base. The Group will closely monitor the rapidly changing market developments, build stronger R&D teams both in China and overseas, optimise product structure, introduce innovative technologies, enhance product quality, and build a brand management system, in order to maintain our competitive edge as industry leader.

To stimulate new development, the Group will continue to build new models and expand business and supply chain platform scale. There are no hiring quotas and the Group has formulated an Employee Referral Incentive Scheme to encourage our entire staff to contribute and help us find talents who could work for us. The Group will seek to change our marketing model, explore new ideas and expand the industry chain to develop new product sales models, such as integration of live streaming on platforms such as Tiktok and Taobao. Through a diverse range of channels, the Group could gradually raise our market share and expand market size. The Group will optimise horizontal expansion of our supply chain, enhance our business system in China and overseas, deepen international exchanges, develop strategic partnerships and enrich innovation resources, and actively explore new opportunities, partnerships and projects.

The Group will seek more environmentally friendly production methods by improving on labour, environment and technology aspects. We will actively implement low carbon and circular development policies in fulfilling our mission of ecological and environmental protection development, as we contribute our own efforts to promote green development of the industry. Since its listing, the Group has been diversifying its investments to expand its business scope and improve its profitability. We believe that only by continuously accelerating the transformation and upgrading of our business, can we adapt to the pace of reform and transition from a planned economy to a market economy. In 2023, the Group will strive to maintain its resilience, adjust its strategic goals, reduce its assets, and actively demonstrate its vitality. At the same time, the Group will start to diversify its existing business, conduct research and develop new projects with more advanced technologies, and forge ahead in Narnia's new chapter of quality sustainable development.

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 31 March 2023, 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 Directors	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%
Mr. Yeung Yiu Wah Francis	Beneficial owner	–	70,000 (L)	0.01%

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 31 March 2023, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 31 March 2023, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

As at 31 March 2023, 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%
Chong Yuet Lan	Beneficial owner	121,602,000 (L)	15.20%

Notes:

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

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 March 2023, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

Compliance with Relevant Laws and Regulations

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

Contingent Liabilities, Legal and Potential Proceedings

As at 31 March 2023, 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 Reporting Period 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 Reporting Period 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 of the Company (the "**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. For principal items of the Share Option Scheme, please refer to the 2022 annual report of the Company.

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

Connected Transaction

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

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

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

Use of Net Proceeds from the Listing

The shares of the Company were listed on GEM of the Stock Exchange on 26 February 2019. Net proceeds from the public offer and placing of the shares 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 31 March 2023, 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 net proceeds as disclosed in the Prospectus <i>(RMB million)</i>	Revised use of the net proceeds as disclosed in the Announcement <i>(RMB million)</i>	Actual utilised amount during the three months ended 31 March 2023 <i>(RMB million)</i>	Actual utilised amount as at 31 March 2023 <i>(RMB million)</i>
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	2.1	4.6
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	2.1	37.9

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 Reporting Period, the Company has complied with the code provisions under the CG Code, other than code provisions C.2.1 of the CG Code.

According to code provision C.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 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 Reporting Period.

Audit Committee

We established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules and paragraph D.3.3 of the CG 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 Audit Committee has reviewed the unaudited financial statements, the results announcement and this quarterly report of the Company for the three months ended 31 March 2023 with the management of the Group 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 three months ended 31 March 2023 will be dispatched to the Shareholders 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 May 2023

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