



**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 **ENVIRONMENTAL, SOCIAL
AND GOVERNANCE REPORT**

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

This Environmental, Social and Governance Report (“**ESG Report**”) is prepared by the Group in accordance with the Environmental, Social and Governance Reporting Guide (“**ESG Reporting Guide**”) set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This ESG Report covers the year from 1 January 2020 to 31 December 2020 (the “**Year Under Review**”) and is intended to provide an insight into the approach adopted and actions taken by the Group regarding its operations and sustainability that have implications for itself and the interests of stakeholders. The terms used in this ESG Report have the same definitions as those in the Company’s 2019 Annual Report, unless otherwise defined. The ESG Report of the Group has been presented in two subject areas, namely environmental and social. Each subject area will disclose various aspects regarding relevant policies and the status of its compliance with relevant laws and regulations as addressed by the ESG Reporting Guide.

The Group understands the importance of the ESG Report and is committed to making continuous improvements in fulfilling our corporate social responsibility in our operations in order to better meet the changing needs of an advancing society. The ESG Report of the Group presents general disclosure of required aspects in policies, initiatives, performance and compliance. The Group will continue to optimize and improve the disclosure requirements.

ABOUT THE GROUP

Narnia (Hong Kong) Group Company Limited (the “**Company**”) and its subsidiaries (together, the “**Group**” or “**Narnia**”) is a long-established textile manufacturer and printing and dyeing company in the PRC with over 18 years of experience in the textile industry. We develop polyester fabrics, which is a type of chemical fabrics, with different textures and functions, manufacture our products at our Huzhou Production Facilities and engage in direct sales to our customers. Apart from sales of fabrics, we also provide printing and dyeing services. We possess strong research and development capabilities and we are capable of offering different series of polyester fabrics with advanced features and functional properties to our customers. These features include light-resistance, abrasion-resistance, easy-to-wash, easy-to-dry, mildew-proof and insect-proof. Apart from product variety, we also possess certain patented production techniques and dyeing methods. Throughout the years, we have been awarded with the Certificate of High and New Technology Enterprise (國家級高新技術企業), the Contribution Award for the Development of Textile Products in the PRC (中國紡織產品開發貢獻獎), recognized as a Pilot Company in the National Integration of Informatization and Industrialization Standard Scheme (國家兩化融合貫標試點企業), a Technology Center in Zhejiang Province (浙江省技術中心), a Pilot Company in the Management and Innovation Scheme in Zhejiang Province (浙江省管理創新試點企業), awarded the silver award for the Transformation of Scientific and Technological Results in Zhejiang Province (浙江省科技成果轉化二等獎), recognized as an Industrial Design Center in Zhejiang Province (浙江省工業設計中心), a Provincial-level Research and Development Center for Enterprises with High and New Technology in Zhejiang Province (浙江省高新技術企業省級研發中心), a Corporate Technology Center in Huzhou City (湖州市企業技術中主), a Model Enterprise for the Integration of Informatization and Industrialization in Huzhou City (湖州市兩化融合示範企業), an Export Brand of Huzhou City (湖州市出口名牌), one of the first Green Factories in Huzhou City (湖州市第一批綠色工廠), a Corporate Industrial Design Center in Huzhou City (湖州市企業工業設計中心), awarded the Outstanding Performance Award among Industrial Enterprises in Changxing County (長興縣工業企業突出業績獎), named one of the Top 50 Enterprises in Changxing County (長興縣50強企業) and awarded the Quality Award by the Changxing County Government (長興縣政府質量獎).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE GROUP (Continued)

The Huzhou Production Facilities of the Group are situated at the strategic location at Huzhou City, Zhejiang Province, China, and consist of our weaving factory and our printing and dyeing factory. Thus, we can readily access upstream and downstream enterprises along the Yangtze River Delta Economic Zone supply chain and acquire the latest industry and market information. Customers purchasing our fabrics principally consisted of manufacturers of apparels, outdoor products and home furnishing products as well as trading companies. Despite the majority of our customers being located in the PRC, our products were delivered to different countries during the Year Under Review, for instance, Mexico, South Africa, Chile, Argentina, India, Panama and Columbia. As for our provision of printing and dyeing services, our customers are mainly weaving factories and fabric processing companies.



The Group continued to focus on strengthening its core business of dyeing and processing textile products, while 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. During the Year Under Review, our income and gross profit margin both declined, due to the adverse impact of the Epidemic.

During the Year Under Review, the Group increased promotional efforts for its new products. A market has formed for eco-friendly functional fabric products, as domestic and overseas customers have started the application of those products with positive response. The meltblown fabric production line, which has commenced operation in the Year Under Review, continuously gives 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 Year Under Review, 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 our supply. In this regard, as the meltblown fabrics are used in anti-Epidemic products such as face masks, we contributed to the global fight against the Epidemic.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE GROUP (Continued)

The Group put strong emphasis in investment in research and development of new products and technology. During the Year Under Review, the Group continued its research and development of environmental-friendly functional fabrics. The “Provincial Enterprise Research Institute” announced by the Research and Development Center was jointly approved by the provincial Science and Technology Department, the Development and Reform Department, and the Economic and Information Technology Department, hence the “Flexible Workstation for Professors and Doctors” was established. The Station was named the “National Leading Enterprise in Water Efficiency among Key Industries” and an “Exemplary Enterprise of Big Data Application in Zhejiang Province” (listed in the 6th batch) by the Ministry of Industry and Information Technology of the PRC in 2020; awarded the “2020 Water Conservation Company in the Textile Industry” by the China National Textile And Apparel Council; the “2020 Water Conservation Company in Zhejiang Province” and the “Benchmark Water Conservation Company” by the Economic and Information Technology Department of Zhejiang, the “Famous Export Brand of Zhejiang Province” by the Department of Commerce of Zhejiang; and was also named one of the “Top 50 Economically Efficient Enterprises in the Chinese Filament Weaving Industry” and given the Gold Award in the “New Filament Fabric Product Fashion Design Competition” issued by the China Filament Weaving Association; five of our products won the “Tianyi Red Flag Cup” and other related honors.

Looking ahead, in addition to keeping focus on its core business, the Group will also expand 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. The Group will continue to invest resources in the research and development projects for developing new products and innovative production technology, strengthen our marketing network in overseas markets, and further strengthen the supply assurance of our major raw materials. The Group believes that, with the implementation of our business strategies and the continuous enhancement of our corporate governance performance, risk prevention capability and profitability, we can create long-term values for all Shareholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION

1. Management of emissions

As we are fully aware of the exhaust gas, sewage, noise and different types of solid wastes generated in our operations, the Group puts great effort in our environmental management work to minimize the impact of exhaust gas, sewage and waste towards the environment. During the Year Under Review, the Group strictly adhered to the various state laws in relation to environmental protection, such as the Environmental Protection Law of the People's Republic of China, the Water Pollution Prevention and Control Law of the People's Republic of China, the Atmospheric Pollution Prevention and Control Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (2015 Amendment), the Cleaner Production Promotion Law of the People's Republic of China, and the Regulation on the Safety Management of Hazardous Chemicals, and committed no violation acts. All emissions were completely in line with the national provisions. For areas that require special attention, we have formulated a separate management system to regulate the emission of exhaust gas, sewage and solid wastes, to ensure that every aspect of production is in line with national and local environmental standards. We also identify updates to the relevant environmental laws and regulations regarding our factories from time to time, and provide training to all related staff to ensure that the operation of our factories is in full compliance.

While our production is mainly concentrated at Huzhou Narnia Industry Co., Ltd., our subsidiary; Changxing Seashore Industrial Co., Ltd. is also responsible for certain production processes. We have established strict environmental protection objectives for two of our production sites, and we closely monitor the emissions of different types of gas, sewage and solid wastes, in order to avoid excessive consumption.

Among our subsidiaries, Changxing Seashore Industrial Co., Ltd. has a relatively small production scale, hence it does not emit any exhaust gas and hazardous solid waste. Despite the insignificant emission amount, Changxing Seashore Industrial Co., Ltd. has entered into a sewage treatment agreement with the local sewage treatment company; pursuant to which, all sewage is discharged to the sewage treatment company for further treatment.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION (Continued)

1. Management of emissions (Continued)

Due to its larger production scale, Huzhou Narnia Industrial Co., Ltd. produces more emissions. The table below sets out the relevant emission details and the according measures to reduce emissions during the Year Under Review:

Type of pollution	Name	Measures of treatment	Intensity and emission amount
Exhaust gas	VOC _s	Install exhaust gas purification devices for stenter frames	0.52mg/M ³
	SO ₂	Install exhaust gas purification devices for stenter frames	/
	Rate of emission	Install exhaust gas purification devices for stenter frames	0.0106kg/H
Sewage	PH	Manage and discharge sewage to sewage treatment factories for further treatment	6–8
	COD	Manage and discharge sewage to sewage treatment factories for further treatment	100mg/L, 25.6T/year
	NH	Manage and discharge sewage to sewage treatment factories for further treatment	10mg/L, 3T/year
Hazardous solid waste	Waste oil	Adopt centralized waste collection method by engaging qualified waste collectors that provide waste transfer and disposal services	5.5T
	Packaging of chemicals	Adopt centralized waste collection method by engaging qualified waste collectors that provide waste transfer and disposal services	1.4t
Non-hazardous solid waste	Packaging of raw materials	Recycle and reuse internal waste	26T
	Defective products produced during production	The products are carried away by customers or sold as defective products by the Company	/
	Domestic waste	All waste is collected by the Company and disposed by the district authority	28T

The Group was not involved in any confirmed non-compliance with the laws and regulations relating to environmental protection that have a significant impact on the Group during the Year Under Review.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION (Continued)

2. Utilization of resources

Chemical fibers, bleached gray fabrics and tinctures are the primary raw materials of the Group's textile and printing and dyeing production. During the Year Under Review, 11,339 tons, 22,343 million meters and 2,290 tons of chemical fibers, bleached gray fabrics and tinctures were used respectively. The production process involves many types of machineries, including the texturing machine, weaving machine, drying machine, scutcher, dyeing vat, setting machine, and printing machine. These machineries and equipment mainly consume electricity, natural gas, and steam, among other resources.

The table below sets out the major resources consumption of Huzhou Narnia Industrial Co., Ltd. and Changxing Seashore Industrial Co., Ltd. in 2020:

Resource	Huzhou Narnia	Changxing Seashore
Electricity	2,336 million KWH	466 million KWH
Natural gas	1,168 million M ³	/
Steam	41,225T	2,797T

The energy conservation measures of the Group primarily include the investment of funding into the replacement and modification of production equipment, the introduction of the German HKM machine, the UFH low liquor ratio overflow dyeing machine, and the Korean Sunstar low-energy consumption setting machine, and also the introduction of the American automatic design-drawing dispenser, thereby minimizing the consumption of resources by strictly ensuring the consistency of samples and finished products, and the maximum efficiency of each operation procedure. We have also established an energy management system and introduced a monitoring and management system that can optimize and the measure energy resources, supervised and assessed the energy efficiency of all relevant departments and positions, and made improvements thereon when necessary, for we have adopted a zero-tolerance approach towards wastage. Moreover, we have developed employees' awareness of environmental protection, with the aim of conserving resources by bringing teamwork into full play.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION (Continued)

3. Environment and natural resources

To treasure our precious resources, the Group proactively promotes various environmental protection programmes based on actual circumstances, such as the introduction of the ISO14001 management system and a review system of clean production. For example, we have an equipment maintenance scheme in place in relation to the disposal of exhaust gas, sewage and solid wastes at Huzhou Narnia. This ensures the high efficiency and smooth operation of our eco-friendly equipment. We have also established a grey-water recycling station, where sewage emitted from our production can be reused, so that water resources can be maximally recycled. Despite the non-material impact of the Group's business towards the environment and natural resources, we have actively responded to the requirements of relevant government authorities by conducting regular supervision and assessment of our daily waste emissions and our impact on the surrounding environment. The Environment Emergency Plan has also been formulated to ensure minimal disruption to the environment in case of emergencies. By virtue of our effective management throughout the years, no environmental accident has occurred in the Company. In addition, we were recognized as a Huzhou City Four-star Green Factory (湖州市四星級綠色工廠).

SOCIETY

1. Employment and Labor Practices

The excellent and continuous profitability, business creativity and growth capacity of the Group allow us to provide a healthy working environment to protect all employees. We have developed various relevant systems to protect employees' rights, including the Company Vacation Management System, Company Personnel Management System and Remuneration Management System, among other policies, and we strictly adhere to the requirements of relevant labor laws and labor contract laws in the places where we operate. In addition to basic salary, we provide competitive remuneration packages including performance bonus. We also provide insurance, housing provident fund, and employees' mutual aid, which shows beyond doubt that we care about our employees.

Employees are a precious resource to the Group, 20% of the Group's employees are from other provinces of China, and they were unable to return to the workplace during the pandemic in 2020. In accordance with the government's requirements on outbreak preventive measures, the Group formulated secure arrangements and established a mechanism to enable employees who were unable to return to the workplace to work from home as part of Narnia's policy of suspending production without suspending pay. In addition, the Group rewarded employees who managed to return to the workplace with a double share of their salary. Taking on a heavy responsibility, the Group cooperated with the government's measures in fighting the outbreak, contributing our efforts in our resolute battle against the pandemic and demonstrating our corporate social responsibility. We also remain attentive to our employees' physical and mental well-being. Through after-work activities and training programmes, we help employees maintain a work-life balance, thereby enriching their lives and enhancing their skills and team cohesion. We encourage employees to build harmonious interpersonal relationships, promote cooperative teamwork, and fully exert the team spirit that we have built over time. Embracing difficulties, we are ready to face challenges.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIETY (Continued)

2. Occupational safety



The Group strictly enforces the occupational safety requirements of the PRC and abides by relevant laws and regulations. To closely monitor the working environment and employees' occupational health, the company has in place the ISO18001 management system and has established emergency treatment procedures in case of emergencies in the workplace, in order to take precautions in advance. Due to the involvement of heavy machines in certain production units that would pose danger to employees' safety, we have notified our employees about relevant risk factors in detail and have provided them rigorous training in order to ensure their work

competence. We have also provided relevant occupational safety supplies and given clear instructions to our employees regarding operational regulations and procedures in relation to our manufacturing equipment. For certain work with higher risks of occupational diseases, in addition to monitoring and testing for risk factors in relation to occupational diseases (職業病危害因素檢測), we conduct pre-employment, on-the-job and post-employment body checks for our employees. We also arrange employees to participate in regular annual fire trainings and fire drills at local fire departments, and require subsidiaries to regularly organize similar events for their employees. Meanwhile, safety production meetings are held every month to collect employees' opinions, and evaluate and discuss the implementation of safety measures, to make sure everything is in order. During the Year Under Review, no major industrial accidents occurred in the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIETY (Continued)

3. Development and training

Human resources constitute the foundation of a company's success. The Group is committed to facilitating lifelong learning for employees, such that they can strive for excellence together with the Company. The Group has developed a comprehensive employee training and management system in relation to career growth. While we primarily engage professional training agencies to provide training for our employees, employees are also sent to specialized training agencies to receive external training. Such kind of training is organized at least 2 times every year. Assessments are conducted after training to evaluate, follow-up and improve training results. We also have the Employee Performance Appraisal System in place to regularly examine our employees' performance.



Due to the application of printing and dyeing processed products, and the demand for highly-skilled workers, such as testing personnel, quality checkers, mechanics, equipment operators, and specialized technicians during the production process, employees with these job positions are required to receive pre-employment technological and equipment training, to ensure that they are familiar with the workflow, mechanical operation, and are equipped with relevant skills and knowledge.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIETY (Continued)

4. Labor standards



By strictly complying with the Labor Law of the People's Republic of China, the Group strictly prohibits child or forced labor. We mainly prevent the employment of child labor during recruitment. Applicants must produce proper proofs of identity for the recruiting manager to verify and confirm the validity of their ID photos and the expiry dates of relevant documents, and are only hired when they meet the statutory age requirements. If the responsible manager has doubts regarding the authenticity of the applicant's ID, the applicant may be asked to provide proofs of academic qualifications to confirm their real age. When necessary, the applicant's ID may be validated by the local police

force. The Group enters into contracts with its employees in accordance with the relevant requirements of local labor laws and labor contract laws after arm's length negotiation between both parties. The contract safeguards employees' rights. Employees are entitled to refuse any dangerous work arrangements, and all kinds of forced labor is strictly prohibited. Once problems are identified, we will immediately stop the relevant work and carry out investigation and follow-up measures.

5. Health and safety

The Group pays attention to its employees' health and provides a safe work environment so as to prevent occupational hazards. To comply with the requirements of "Law of the People's Republic of China on Work Safety", we establish management policies in production safety and set up safety management system. We follow the requirements of the government's safety production department and signed the safety responsibility statement. We also require the supervisors and employees at all levels to clearly understand their own safety responsibilities and sign the respective safety responsibility statement, and strictly perform the requirements as stated on the safety responsibility statement with reference to the internal safety management system.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OPERATING MODEL

1. Supply chain management

The three major types of suppliers of the Group are, namely, equipment manufacturers, suppliers for raw materials used in our production, and suppliers for packaging materials. We have established relevant supplier policies which set clear rules in relation to the selection and supervision of suppliers. Before confirming to cooperate with a certain supplier, we will require them to provide relevant proofs of legal operation, and arrange technicians and legal staff to conduct on-site investigations at the suppliers' production locations, to ensure the compliance with relevant safety production regulations and environmental protection laws during their operation. In addition, for selected suppliers, we conduct irregular investigations at their production locations during the procurement process to ensure that our requirements are met. We also closely monitor our suppliers' operational conditions through regular checks and irregular sample checks, to ensure that no risks are posed towards the environment and the society.

2. Product responsibility

We have developed comprehensive responsibility policies for all types of products. By monitoring the quality of products and customer service, keeping in touch with customers, ensuring our comprehension of and attention to customers' needs and expectations, and hoping to understand customers' level of satisfaction, we constantly make improvements to our products and services. During the Year Under Review, we have passed a quality management system certification that meets the ISO9001:2015 standard and provides standardization of quality assurance for our production. To ensure quality of finished products, the Quality Control Department has been established, and is responsible for formulating guidelines for the testing of different work procedures, training professional quality checkers, and conducting inspections and acceptance checks on raw materials, the processing procedure and finished products. If faulty products are found/services do not meet customers' standards, customers are welcome to voice their opinions to our sales or directly to our managing director. Customer opinions or complaints can also be expressed via telephone, email, fax, interviews and other methods or channels. Our sales will make prompt responses by looking into the problems and understanding the customer's satisfaction level. During the Year Under Review, the Group's products are not involved in any major non-compliance with laws or regulations.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OPERATING MODEL (Continued)



3. Anti-corruption

The Group believes that “equality”, “integrity” and “corruption-free” are important business assets. As an active response to China’s anti-corruption campaigns in recent years and the establishment of the Anti-fraud and Whistle-blowing System which strengthens management, we have developed a regulation system and several reward and punishment measures to regulate employees’ conduct, promote a company culture of integrity, and cultivate an anti-fraud business cultural environment. We assess the risks of fraud and have built a detailed control system and mechanism to lower the chances of fraud. A permanent Anti-fraud Department, supervised by the Board of Directors and the Audit Committee, is established to receive information, investigate, report on and give handling advice whenever fraud is reported. In addition, the Group integrates its anti-fraud work into its production and operation processes by ensuring that telephones, email addresses, and on-site complaint boxes are set up under strictly confidential situations, such that department managers and the managing director can be notified of the use of illegal measures, such as fraud, by internal and external members of the Company to achieve inappropriate personal gains, at the expense of the Company’s rightful economic benefits; or to acquire inappropriate economic benefits from the Company, while engaging in behavior that brings about inappropriate personal gains. During the Year Under Review, no litigation is brought against the Group or its employees in relation to corruption.

4. Giving back to the society

The Group puts a high value on the enterprise’ responsibility towards the society and proactively gives back to the community. We have developed several policies to give back to the society, for example, the Group gives priority to residents in nearby communities during recruitment to enhance local residents’ income and improve their living conditions. We regularly communicate with relevant local government departments to ensure that our operation and investment are in line with policy requirements and community demands. Moreover, depending on position requirements, we take positive action and employ people with disability or people from disadvantaged groups under relaxed recruitment conditions. The Group also participates actively in social welfare activities and charity events, including making donations for local primary and secondary schools, newly developed rural villages, and local poor families. We have also actively joined the Support Xinjiang event by purchasing rural produces from Xinjiang and other underprivileged areas as benefits paid to employees. Last but not least, we have encouraged employees to contribute their efforts in environmental protection campaigns such as “Treatment of Five Water” and “Waste Separation”, and have made donations to victims of natural disasters. Since the outbreak of the epidemic in early 2020, the Group has made donations to Changxing County for purchasing medical materials.

Aiming to become a respectable enterprise, the Group hopes to improve business performance and to create more meaningful long-term values for our company and our investors through implementing sustainability strategies.