



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

2022

THIRD QUARTERLY REPORT

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CORPORATE INFORMATION

Directors

Executive Directors

Mr. Dai Shunhua (*Chairman*)
Ms. Song Xiaoying

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

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Headquarters and Principal Place of Business in PRC

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Zhejiang Province
PRC

Principal Place of Business in Hong Kong

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Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

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Legal Advisers

(*as to Hong Kong law*)
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Registered Public Interest Entity Auditor
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Principal Bankers

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PRC

Stock Code

8607

Company's Website

www.narnia.hk

RESULTS HIGHLIGHTS

For the nine months ended 30 September 2022, the results highlights were as follows:

- Revenue increased by 10.1% to approximately RMB274.9 million (2021: approximately RMB249.7 million).
- Gross profit decreased by 29.9% to approximately RMB19.5 million (2021: approximately RMB27.8 million).
- Gross profit margin was approximately 7.1% (2021: approximately 11.1%).
- Profit attributable to the equity holders of the Company for the nine months ended 30 September 2022 decreased by 37.5% to approximately RMB3.0 million (2021: approximately RMB4.8 million).
- Basic earnings per share decreased by 36.7% to approximately RMB0.38 cents (2021: approximately RMB0.60 cents).
- The Board resolved not to recommend the payment of any interim dividend for the nine months ended 30 September 2022 (2021: nil).

UNAUDITED CONSOLIDATED THIRD QUARTERLY RESULTS OF 2022

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 2022 (the “**Reporting Period**”) and selected explanatory notes, together with the comparative figures of the corresponding period in 2021 as follows:

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

For the nine months ended 30 September 2022

	Note	Three months ended 30 September		Nine months ended 30 September	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	5	107,230	84,981	274,861	249,674
Cost of sales and services		(100,671)	(76,792)	(255,380)	(221,837)
Gross profit		6,559	8,189	19,481	27,837
Other income	6	1,291	426	3,300	2,819
Other gains and losses	7	756	(1,497)	1,749	(3,729)
Selling and distribution expenses		(953)	(887)	(2,875)	(2,845)
Administrative expenses		(2,508)	(1,965)	(8,235)	(7,435)
Research expenditure		(2,978)	(2,307)	(7,164)	(7,250)
Other expenses		–	(211)	–	(211)
Finance costs	8	(1,086)	(1,108)	(3,203)	(3,261)
Profit before tax		1,081	640	3,053	5,925
Income tax (expense)/credit	9	73	(154)	(16)	(1,116)
Profit for the period attributable to the equity holders of the Company		1,154	486	3,037	4,809
Other comprehensive income		–	–	–	–
Total comprehensive income for the period attributable to the equity holders of the Company		1,154	486	3,037	4,809
Earnings per share					
– Basic and diluted (RMB cents)	10	0.14	0.06	0.38	0.60

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2022

	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 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
At 1 January 2022	5,346	36,523	11,428	77,126	(669)	129,754
Profit and total comprehensive income for the period	-	-	-	-	3,037	3,037
At 30 September 2022	5,346	36,523	11,428	77,126	2,368	132,791

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2022

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 2022 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 2021, except for the adoption of the new and revised IFRSs that have become effective for its accounting period beginning on 1 January 2022.

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 2022 are consistent with those of the audited annual financial statements for the year ended 31 December 2021, 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 2022 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 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. 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	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of fabric products, recognised at a point in time	168,568	148,071
Revenue from printing and dyeing service, recognised over time	106,293	101,603
Total	274,861	249,674

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 (2021: 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 (2021: 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	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income	9	294
Government subsidies (Note)	1,604	1,333
Dividend received from financial asset mandatorily measured at FVTPL	1,021	1,021
Rental income	609	152
Others	57	19
Total	3,300	2,819

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	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net gain/(loss) on disposal of property, plant and equipment	741	(750)
Net gain/(loss) on sales of raw materials	354	(1,685)
Net exchange gain/(loss)	1,412	(694)
Others	(758)	(600)
Total	1,749	(3,729)

8. Finance Costs

	Nine months ended 30 September	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	3,203	3,261

9. Income Tax Expense

	Nine months ended 30 September	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax expense	(16)	(1,116)
Deferred tax charge	-	-
Total	(16)	(1,116)

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 2022 and 2021. Provision for the PRC Enterprise Income Tax during the nine months ended 30 September 2022 and 2021 was made based on the estimated taxable 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 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 (continued)

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 2022, 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 2022 (2021: 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 nine months ended 30 September 2022 can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Nine months ended	
	30 September	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before tax	3,053	5,925
Tax at PRC EIT rate of 25%	(763)	(1,481)
Tax effect of expense not deductible for tax purpose	(298)	(320)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	739	745
Income taxed at concessionary rate	542	488
Tax effect of deductible temporary difference	(97)	(298)
Tax effect of income not taxable for tax purpose	(139)	(250)
Income tax expense	(16)	(1,116)

10. Earnings Per Share

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

	Nine months ended	
	30 September	
	2022	2021
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to the equity holders of the Company for the purpose of basic earnings per Share <i>(RMB'000)</i>	3,037	4,809
Number of Shares:		
Number of ordinary Shares for the purpose of basic earnings per Share	800,000,000	800,000,000
Basic earnings per Share <i>(RMB cents per Share)</i>	0.38	0.60

The calculation of basic earnings per share is based on the profit for the period attributable to the equity holders of the Company of approximately RMB3,037,000 (2021: approximately RMB4,809,000) and the number of 800,000,000 ordinary shares (2021: 800,000,000) in issue during the Reporting Period.

No diluted earnings 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 2022 (2021: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In accordance with the requirements of the provincial government to carry out remedial work in textile enterprises (印染企業整治工作) during the Reporting Period, the Group has proactively cooperated with the relevant government departments and formulated a remediation plan tailored for the Group, where our major goals of remediation are to save energy, reduce carbon emissions, adopt green manufacturing and digital production procedures, and achieve quality development, targets which are conducive to the healthy and stable development of the Group. Meanwhile, the remedial work carried out on the water-jet looms in Jiapu Town and the shutdown of the water-jet loom production line of the Group have brought a certain amount of economic loss, as well as opportunities, to the Group during the Reporting Period. Besides maintaining the business relationships with our customers with established business relationships, we have also been working hard to find new customers, to increase our market share. Due to the influence of the increase in the raw material prices and the surging energy prices, the increase in our revenue during the Reporting Period is smaller than expected, and the Group recorded a decrease in our gross profit for the Reporting Period.

During the Reporting Period, 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 responses. The Group will continue to focus on the development of domestic and overseas markets for its products. During the Reporting Period, provided that existing resources remain unchanged, the Group has adjusted and rearranged the operation of our production site and conducted technical upgrade on our three printing and dyeing production lines. The business volume of the domestic printing and dyeing and processing sectors have begun to get on the right track gradually.

The Group put a strong emphasis on investment in the research and development of new products and technology. During the Reporting Period, the Group continued its research and development on environmental-friendly functional fabrics. The first postdoctoral researcher has successfully completed his studies in the Group's postdoctoral work station, while the second postdoctoral researcher has successfully joined the station. During the Reporting Period, the continuous spread of sporadic novel coronavirus (COVID-19) (the "**Pandemic**") have posed challenges to different industries in the PRC. The Group has implemented precautionary measures to mitigate the risk of outbreak of the Pandemic in the production facilities of the Group and to create a healthy and hygienic working environment, including implementation of measures for conducting thorough contact tracing whenever any of our employees is infected and continuous trainings on precautionary measures and personal hygiene etc..

Financial Review

Revenue

Our total revenue was approximately RMB274.9 million for the nine months ended 30 September 2022 (2021: approximately RMB249.7 million), representing an increase of approximately RMB25.2 million or 10.1% as compared to the nine months ended 30 September 2021. The increase in revenue was mainly due to the gradual recovery of market demand due to the control of the Pandemic during the Reporting Period as compared to the nine months ended 30 September 2021.

	Nine months ended 30 September			
	2022		2021	
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Sales of fabric products, recognised at a point in time	168,568	61.3	148,071	59.3
Service revenue from printing and dyeing, recognised over time	106,293	38.7	101,603	40.7
Total	274,861	100.0	249,674	100.0

Revenue from the sales of fabrics increased by approximately RMB20.5 million or 13.8% from approximately RMB148.1 million for the nine months ended 30 September 2021 to approximately RMB168.6 million for the nine months ended 30 September 2022 with total volume of fabrics sold at approximately 24.2 million metres for the nine months ended 30 September 2022 as compared to approximately 21.5 million metres for the nine months ended 30 September 2021.

Revenue from printing and dyeing services increased by approximately RMB4.7 million or 4.6% from approximately RMB101.6 million for the nine months ended 30 September 2021 to approximately RMB106.3 million for the nine months ended 30 September 2022 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 RMB221.8 million for the nine months ended 30 September 2021 to approximately RMB255.4 million for the nine months ended 30 September 2022, representing an increase of approximately RMB33.6 million or 15.1%. The increase in cost of sales and services was mainly due to the increase in the total production volume as well as the increase in the average cost of the raw materials and energy for the Reporting Period.

Gross profit and gross profit margin

Our gross profit was approximately RMB19.5 million for the nine months ended 30 September 2022 (2021: approximately RMB27.8 million). The Group's gross profit margin decreased from approximately 11.1% for the nine months ended 30 September 2021 to approximately 7.1% for the nine months ended 30 September 2022. The decrease in gross profit margin was mainly due to the fact that the average cost of the raw materials and energy for the Reporting Period were higher than those in the prior year, which led to a relatively higher cost of sales and services for the nine months ended 30 September 2022. Besides, due to the keen competition in the market, the Group needed to offer more competitive selling price in order to gain more sales orders.

Other income

Our other income was approximately RMB3.3 million for the nine months ended 30 September 2022 (2021: approximately RMB2.8 million). The increase of approximately RMB0.5 million for the nine months ended 30 September 2022 compared to that for the nine months ended 30 September 2021 was mainly due to the increase in government subsidies.

Other gains and losses

Our other gains was approximately RMB1.7 million for the nine months ended 30 September 2022 (2021: other losses of approximately RMB3.7 million). The increase of approximately RMB5.4 million for the nine months ended 30 September 2022 compared to that for the nine months ended 30 September 2021 was mainly due to the increase in (i) net gains on sale of some out-dated raw materials of approximately RMB2.0 million; (ii) net exchange gain of approximately RMB2.1 million, and (iii) gain on disposal of property, plant and equipment of approximately RMB1.5 million which was partially off-set by the increase in other losses of approximately RMB0.2 million.

Selling and distribution expenses

Our selling and distribution expenses principally comprise (i) transportation expenses charged by logistics companies for delivery of our products from warehouse to our customers' designated point; (ii) packaging expenses; (iii) exhibition expenses; and (iv) export fees. Our selling and distribution expenses increased by approximately RMB0.1 million or 3.6% from approximately RMB2.8 million for the nine months ended 30 September 2021 to approximately RMB2.9 million for the nine months ended 30 September 2022. The increase was mainly due to the increase in transportation cost.

Administrative expenses

Our administrative expenses primarily consist of (i) staff costs; (ii) professional service fee; (iii) entertainment expenses; (iv) depreciation of property, plant and equipment and amortisation of intangible assets; and (v) travelling expenses.

Our administrative expenses increased by approximately RMB0.8 million or 10.8% from approximately RMB7.4 million for the nine months ended 30 September 2021 to approximately RMB8.2 million for the nine months ended 30 September 2022. The increase was mainly due to the increase in staff costs.

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 RMB7.2 million for the nine months ended 30 September 2022 (2021: approximately RMB7.3 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 RMB0.1 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 2022, our finance costs amounted to approximately RMB3.2 million (2021: approximately RMB3.3 million). Our finance costs mainly comprised the interest expenses on our bank and other borrowings. The finance cost decreased by approximately RMB0.1 million or 3.0% as compared to that of last year, mainly as a result of the decrease in bank borrowings.

Income tax expense

Income tax expense represents our total current and deferred tax expense. The current tax is calculated based on taxable profits at the applicable tax rates for the relevant years or periods. Deferred tax is recognised based on temporary differences mainly arising from fair value changes on financial assets mandatorily measured at 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 2022 (2021: 15%).

The income tax expense for the nine months ended 30 September 2022 was approximately RMB0.02 million, when compared to that of approximately RMB1.1 million for the nine months ended 30 September 2021. The details are set out in Note 9 to the financial statements.

Profit and other total comprehensive income 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 2022 was approximately RMB3.0 million, while there was a profit of approximately RMB4.8 million for the nine months ended 30 September 2021.

Dividends

The Board resolved not to recommend the payment of any dividend for the nine months ended 30 September 2022 (2021: nil).

Future Outlook

During the Reporting Period, the impact of the continued spread of the Pandemic and international factors such as the trade frictions between China and the US continued to bring instability in the development of the textile industry in the PRC. Although demand for printing and dyeing services remained stable, the business of the Group has been adversely impacted to a certain degree due to disruptions in international logistics, the continuous rise in the price of raw materials, and the appreciation of the Renminbi, which resulted in a drop in profit from sale of its products. While the textile industry continues to be affected by domestic and international issues, the combined effect of technological advancement, safety management, and environmental protection has made it necessary for us to further improve our overall competitiveness. As a result of the effect of “the survival of the fittest”, existing enterprises are forced to transform and upgrade, the pace of industrial product restructuring and upgrading is expected to accelerate, and industrial consolidation is expected to be raised gradually.

In the fourth quarter of 2022, market competition is expected to be even more intense and is expected to feature more challenges and uncertainties. Stepping into the 20th anniversary of the Group, 2022 is expected to be a critical year for the Group’s implementation of high-quality intelligent manufacturing process, as well as the final stage of the remedial work in textile enterprises in Changxing. Standing at the starting point of a new journey, we must uphold the principles of “practicing new ideas, embracing the new era, befriending the virtuous and walk with the wise, leading the world with integrity, and innovating for the future”, and the employees of the Group shall endeavour to promote the stable and strong development of the Company.

The Group's general strategic 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 products 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, changing our marketing model, developing new ideas, expanding the industry chain, organising sales for finished products, marketing our products directly to end consumers by promoting them through live-stream sales on online platforms, developing markets with new products, and increasing market share;
- (3) Strengthening the information construction of the Group, developing environmentally oriented strategies, completing the automation of production and data collection, completing the work of Changxing Province to further rectify its printing and dyeing performance and increase its acceptance rate; and
- (4) Seeking common welfare for the society, our employees, and their family members in a rational manner, and further exploring new projects and new platforms for sharing prosperity on the existing basis, to find new ways to achieve common prosperity.

Following our successful Listing on GEM of the Stock Exchange on 26 February 2019, we benefited from a strong capital platform which will be conducive to taking our business to the next level. We are positive about the market outlook and our outstanding capability and competitive edge, which will enable us to capitalise growth opportunities ahead.

Human Resources and Training

As at 30 September 2022, the Group had a total of 422 employees, total staff cost for the Reporting Period amounted to approximately RMB16.3 million (2021: approximately RMB15.4 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 2022, 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 2022, 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 2022, 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 2022, 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 2022, 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 2022, 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 2022 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 2022 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 2022.

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.

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 2022, 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 2022 (RMB million)	Actual utilised amount as at 30 September 2022 (RMB million)	Unutilised amount as at 30 September 2022 (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	March 2023
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	

Due to the Pandemic, the acquisition of machinery, equipment and ancillary facilities for printing and dyeing was delayed and was expected to be further delayed from December 2022 to March 2023.

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 2022 and up to the date of this report, 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 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 2022 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 2022 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 2022 will be dispatched to shareholders of the Company and published on the Company's website at www.narnia.hk and the website of the Stock Exchange at www.hkexnews.hk in due course.

By order of the Board
Narnia (Hong Kong) Group Company Limited
Mr. Dai Shunhua
Chairman of the Board

Zhejiang, PRC, 14 November 2022

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.