SANVO Fine Chemicals Group Limited
三和精化集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 301)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the "**Board**") of directors (the "**Directors**") of SANVO Fine Chemicals Group Limited (the "**Company**") presents the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2020, along with the comparative figures and selected explanatory notes, which are prepared in accordance with the International Financial Reporting Standards, and have been reviewed by the audit committee of the Company (the "**Audit Committee**").

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020, the Group's operating results were as follows:

- Total revenue decreased by approximately 8.0% to approximately RMB341.8 million (six months ended 30 June 2019: approximately RMB371.4 million).

- Gross profit decreased by approximately 9.9% to approximately RMB101.9 million (six months ended 30 June 2019: approximately RMB113.1 million).

- Gross profit margin decreased by approximately 0.7% to approximately 29.8% (six months ended 30 June 2019: approximately 30.5%).

- Profit for the period attributable to owners of the Company decreased by approximately 10.4% to approximately RMB14.9 million (six months ended 30 June 2019: approximately RMB16.7 million).

- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		Unaudited	Audited
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**341,788**	371,354
Cost of sales		**(239,915)**	(258,235)
Gross profit		**101,873**	113,119
Other income and gains	*4*	**2,468**	495
Selling and distribution expenses		**(42,919)**	(48,843)
Administrative expenses		**(39,965)**	(37,628)
Listing expenses		**—**	(6,583)
Finance costs	*6*	**(3,708)**	(2,308)
Profit before income tax	*7*	**17,749**	18,252
Income tax expense	*8*	**(2,815)**	(1,576)
Profit for the period attributable to the owners of the Company		**14,934**	16,676
Other comprehensive income/(loss)			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		**(188)**	(99)
Total comprehensive income for the period attributable to the owners of the Company		**14,746**	16,577
Earnings per share attributable to the owners of the Company			
Basic and diluted (RMB cents)	*9*	**3.6**	4.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	**As at 30 June 2020 Unaudited** *RMB'000*	As at 31 December 2019 Audited *RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*11*	**128,037**	117,145
Right-of-use assets		**92,192**	94,278
Prepayments for acquisition of property, plant and equipment	*12*	**10,553**	10,695
Deferred tax assets		**47**	96
		230,829	222,214
Current assets			
Inventories		**53,085**	57,007
Trade and bills receivables, other receivables and prepayments	*12*	**74,201**	91,364
Pledged bank deposits		**51,877**	23,000
Cash and cash equivalents		**126,927**	16,468
		306,090	187,839
Current liabilities			
Trade and bills payables, accruals, contract liabilities and other payables	*13*	**198,456**	186,822
Lease liabilities		**1,605**	1,635
Interest-bearing bank borrowings		**86,959**	71,047
Tax payables		**2,436**	2,604
		289,456	262,108
Net current assets/(liabilities)		**16,634**	(74,269)
Total assets less current liabilities		**247,463**	147,945

	Note	As at 30 June 2020 Unaudited *RMB'000*	As at 31 December 2019 Audited *RMB'000*
Non-current liabilities			
Lease liabilities		**3,379**	3,938
Interest-bearing bank borrowings		**60,957**	53,763
Deferred income		**1,704**	1,723
Deferred tax liabilities		**4,143**	3,945
		70,183	63,369
Net assets		**177,280**	84,576
CAPITAL AND RESERVES			
Share capital	*14*	**3,792**	—*
Reserves		**173,488**	84,576
Total equity		**177,280**	84,576

* *Less than RMB1,000*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. CORPORATE INFORMATION

SANVO Fine Chemicals Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 12 April 2018. The registered office of the Company is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The Company's headquarters and principal place of business in the People's Republic of China (the "**PRC**") is located at Dacen Industrial Park, Huangpu District, Zhongshan City, Guangdong, the PRC and the Company's principal place of business in Hong Kong is located at 5/F., 349 Hennessy Road, Wanchai, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 January 2020 (the "**Listing Date**") (the "**Listing**").

The Company is an investment holding company. The principal activities of the Group are researching, developing, manufacturing and sales of hardware and building materials and automotive maintenance industrial chemical products in the PRC.

2. BASIS OF PREPARATION

This interim financial statements has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), including compliance with International Accounting Standard ("**IAS**") 34, Interim financial reporting, issued by the International Accounting Standards Board (the "**IASB**"). It was authorised for issue on 28 August 2020.

The interim financial statements has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements.

The preparation of an interim financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial statements contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial statements as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2019 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 April 2020.

Going concern assumption

In preparing the financial statements, the Directors have considered the Group's sources of liquidity and believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

3. ADOPTION OF NEW OR REVISED IFRSs

The adoption of the revised IFRSs that are relevant to the Group and effective from the current period had no significant effects on the consolidated financial position and consolidated financial performance of the Group for the current period and prior years.

At the date of authorisation of the condensed consolidated financial statements, the Group has not early adopted any new and revised IFRSs that have been issued but are not yet effective for the current period. The Group has already commenced an assessment of the related impact of adopting the above new and revised IFRSs. So far, the Directors have concluded that the new and revised IFRSs will be adopted at the respective effective dates and the adoption of them is unlikely to have a significant impact on the Group's consolidated financial position and consolidated financial performance.

4. REVENUE AND OTHER INCOME AND GAINS

Revenue from the Group's principal activities, represents revenue derived from the sales of hardware and building materials and automotive maintenance industrial chemical products. Revenue and other income and gains recognised during the six months ended 30 June 2020 and 2019 are as follows:

	Six months ended 30 June	
	2020	2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Revenue *(Note)*	**341,788**	371,354
Other income and gains		
Bank interest income	**750**	151
Rental income	**286**	278
Unconditional Government subsidies	**1,210**	10
Gain on disposal of property, plant and equipment	**—**	24
Sundry income	**222**	32
	2,468	495

Note: Disaggregation of revenue from contracts with customers by major categories of products is disclosed in Note 5.

5. SEGMENT INFORMATION

The Group has three reportable segments which are the Group's strategic business units, as follows:

Aerosols	Sales of spray paints and automotive care products, including spray paint, carburetor cleaner, spray wax, anti-rust spray lubricant, polyurethane foam, cleaning spray and spray refrigerant for automobile air-conditioners
Organic silicone adhesives	Sales of product series, which are all silicone-based adhesives
Synthetic adhesive	Sales of several product series, which are all multi-purpose contact adhesives

Information about strategic business units of other operating segments that are not reportable in accordance with IFRS 8 *Operating Segments* are consolidated and disclosed in "All other segments".

These strategic business units offer different products, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the executive Directors, who are the CODM (i.e. chief operating decision makers) of the Group during the year, review internal management reports on a monthly basis. There was no aggregation of operating segments in arriving at the reportable segments of the Group.

(a) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the CODM monitor the results attributable to each reportable segment on the following basis:

Segment profit represents the gross profit earned by each segment without allocation of central administration expenses (including emoluments of directors, listing expenses), selling and distribution expenses, other income and gains, impairment losses on financial assets and finance costs. This is the measure reported to the Group's CODM for the purposes of resource allocation.

The CODM review the Group's assets and liabilities as a whole without allocation to each segment. In his opinion, all strategic business units consume similar materials and their products are produced by same machinery and equipment and then they are sold to same customers. As a result, it is not necessary to monitor the assets and liabilities under different segments. No segment information on assets and liabilities is presented accordingly.

During the six months ended 30 June 2020 and 2019, the Group generated revenue primarily from the sale of three categories of products under these segments. The following table sets out the breakdown of the revenue and segment profit by reportable segment:

	Aerosols *RMB'000*	Organic silicone adhesives *RMB'000*	Synthetic adhesive *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2020 (Unaudited)				
Revenue from external customers and reportable segment revenue — Point in time	**219,707**	**55,329**	**26,321**	**301,357**
Reportable segment profit	**69,069**	**14,583**	**7,721**	**91,373**
For the six months ended 30 June 2019 (Audited)				
Revenue from external customers and reportable segment revenue — Point in time	199,486	85,590	31,535	316,611
Reportable segment profit	69,105	25,393	8,927	103,425

(b) Reconciliations of reportable segment revenue and profit before income tax

A reconciliation of segment revenue to total revenue is presented as follows:

	Six months ended 30 June	
	2020	2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Total reportable segment revenue	**301,357**	316,611
All other segments revenue *(Note)*	**40,431**	54,743
Total revenue	**341,788**	371,354

A reconciliation of segment result to profit before income tax is presented as follows:

	Six months ended 30 June	
	2020	2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Total of reportable segment profit	**91,373**	103,425
All other segments profit *(Note)*	**10,500**	9,694
Other income and gains	**2,468**	495
Selling and distribution expenses	**(42,919)**	(48,843)
Administrative expenses	**(39,965)**	(37,628)
Listing expenses	**—**	(6,583)
Finance costs	**(3,708)**	(2,308)
Profit before income tax	**17,749**	18,252

Note: Segment revenue and segment profit from other segments represents the sales of architectural coatings, oil products, wood paints and others.

(c) Geographical information

The principal place of the Group's operation is in the PRC. All the Group's non-current assets are located in the PRC. The following table provides an analysis of the Group's revenue generated from external customers by geographical market.

	Six months ended 30 June	
	2020	2019
	Unaudited	Audited
	RMB'000	*RMB'000*
The PRC	**333,612**	361,601
Australia	**7,195**	8,255
Others	**981**	1,498
	341,788	371,354

(d) Information about major customers

No revenue from a single external customer accounted for 10% or more of the Group's revenue for the six months ended 30 June 2020 and 2019.

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Interest on interest-bearing bank borrowings	**5,451**	3,352
Interest on lease liabilities	**162**	209
Less: interest capitalised into property, plant and equipment *(Note)*	**(1,905)**	(1,253)
	3,708	2,308

Note: During the period, the finance costs have been capitalised at an effective interest rate of 6.36% (six months ended 30 June 2019: 6.28%) per annum.

7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2020	2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses	**239,915**	258,235
Depreciation of property, plant and equipment	**3,624**	4,363
Depreciation of right-of-use assets	**2,086**	2,131
Employee benefit expenses (including directors' remuneration and salaries in research and development expenses)		
— Salaries, allowances and benefits in kind	**34,884**	32,899
— Discretionary bonus	**1,460**	1,140
— Retirement benefit scheme contributions	**396**	1,843
	36,740	35,882

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Current tax expense		
— PRC Enterprise Income Tax ("**EIT**")	**2,568**	1,817
Deferred tax credit		
— the origination and reversal of temporary differences	**247**	(241)
Income tax expense	**2,815**	1,576

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax under these jurisdictions.

No provision for income tax has been made for the subsidiaries incorporated in Hong Kong as the subsidiaries did not have any estimated assessable profits subject to Hong Kong Profits Tax.

Under the Enterprise Income Tax Law of the PRC (the "**EIT Law**") and the Implementation Regulation of the EIT Law, the subsidiaries operating in the PRC are subject to the tax rate of 25% (six months ended 30 June 2019: 25%) on the estimated assessable profits during the period except for four (six months ended 30 June 2019: four) of the subsidiaries operating in the PRC which were approved to be high and new technology enterprises ("**HNTE**") during the period. Enterprise approved to be HNTE are entitled to enjoy a reduced enterprise income tax rate of 15% (six months ended 30 June 2019: 15%) and additional 50% (six months ended 30 June 2019: 50%) tax reduction based on the eligible research and development expenses with a validity period of three years. The HNTE certificate is required to be renewed every three years so as to enable the respective subsidiaries to enjoy the reduced tax rate of 15%.

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2020 is calculated based on the profit for the period attributable to the owners of the Company of RMB14,934,000 and the weighted average of 420,000,000 ordinary shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2019 is calculated based on the profit for the period attributable to the owners of the Company of RMB16,676,000 and the weighted average of 337,500,000 ordinary shares in issue during the period, represented the number of shares of the Company immediately prior to the Listing as if the shares had been in issue throughout the six months ended 30 June 2019.

(b) Diluted earnings per share

Diluted earnings per share were same as the basic earnings per share as there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2020 and 2019.

10. DIVIDEND

(i) Dividends payable to equity shareholders attributable to the interim period

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period

Final dividend in respect of the previous financial year, approved during the interim period was HK2.4 cents per ordinary share (six months ended 30 June 2019: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired items of plant and machinery with a cost of RMB12,469,000 (six months ended 30 June 2019: RMB14,597,000). No plant and machinery were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB97,000).

12. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2020 Unaudited ***RMB'000***	As at 31 December 2019 Audited *RMB'000*
Non-current portion		
Prepayments for acquisition of property, plant and equipment	**10,553**	10,695
Current portion		
Trade receivables	**34,679**	62,009
Less: Allowance for doubtful debts	**(311)**	(642)
	34,368	61,367
Bills receivable	**2,221**	1,823
Trade and bills receivables, net	**36,589**	63,190
Prepaid listing expenses	**—**	4,805
Prepayments and other receivables	**37,612**	23,369
	74,201	91,364

All of the trade and bills receivables and current portion of prepayments and other receivables are expected to be recovered or recognised as expenses within one year.

The credit period for trade receivables is normally 180 days from the date of billing. The ageing analysis of trade and bills receivables based on due date and net of allowance for doubtful debts, is as follows:

	As at 30 June 2020	As at 31 December 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Current	**35,404**	55,734
Less than 1 month	**1,185**	7,456
	36,589	63,190

The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit loss ("**ECL**"), which is calculated using a provision matrix. The estimated ECL loss rates are estimated based on the Group's estimates of the market borrowing rates for each of the groupings, less risk-free rate, which reflect the credit risk of the debtors, over the expected life of the debtors and are adjusted forward-looking information that is available without undue cost or effort.

The following table provides information about the Group's exposure to credit risk and ECL for trade receivables:

Ageing based on the invoice date	**Weighted average expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
	%	***RMB'000***	***RMB'000***	***RMB'000***
At 30 June 2020 (Unaudited)				
Within 1 month	**0.2**	**19,785**	**(39)**	**19,746**
Over 1 month but less than 3 months	**0.8**	**9,375**	**(76)**	**9,299**
Over 3 months but less than 1 year	**3.7**	**5,519**	**(196)**	**5,323**
		34,679	**(311)**	**34,368**
At 31 December 2019 (Audited)				
Within 1 month	0.2	27,281	(48)	27,233
Over 1 month but less than 3 months	0.8	19,175	(159)	19,016
Over 3 months but less than 1 year	2.8	15,553	(435)	15,118
		62,009	(642)	61,367

13. TRADE AND BILLS PAYABLES, ACCRUALS, CONTRACT LIABILITIES AND OTHER PAYABLES

	As at 30 June 2020 Unaudited ***RMB'000***	As at 31 December 2019 Audited *RMB'000*
Trade payables	**130,670**	106,089
Bills payable	**15,951**	21,945
Accrued expenses	**2,149**	3,791
Accrued employee benefit expenses	**12,283**	14,851
Accrued listing expenses	**—**	10,698
Deferred income — current portion	**38**	38
Dividend payable	**9,372**	—
Other payables	**27,993**	29,410
	198,456	186,822

The credit period received from suppliers of the Group is ranging from 30 to 90 days. The ageing analysis of trade payables based on invoice date is as follows:

	As at 30 June 2020 Unaudited ***RMB'000***	As at 31 December 2019 Audited *RMB'000*
Within 1 month	**121,691**	73,054
Over 1 month but less than 3 months	**5,996**	30,106
Over 3 months but less than 1 year	**2,188**	2,256
Over 1 year	**795**	673
	130,670	106,089

14. SHARE CAPITAL

	Number of shares	**Share capital** *RMB'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 12 April 2018 (date of incorporation of the Company), 31 December 2018 and 1 January 2019	39,000,000	313
Increase in authorised share capital on 13 December 2019	1,461,000,000	13,074
At 31 December 2019 and at 30 June 2020	**1,500,000,000**	**13,387**
Issued and fully paid:		
At 12 April 2018 (date of incorporation of the Company)		
Issue of share upon incorporation	1	—*
Issue of shares arising from the Reorganisation	99	—*
At 31 December 2018, 1 January 2019 and 31 December 2019 (Audited)	100	—*
Issue of shares arising from the Reorganisation	337,499,900	2,994
Issue of shares from share offer	90,000,000	798
At 30 June 2020 (Unaudited)	**427,500,000**	**3,792**

* *Less than RMB1,000*

15. COMMITMENTS

Capital commitments

	As at 30 June 2020 Unaudited *RMB'000*	As at 31 December 2019 Audited *RMB'000*
Property, plant and equipment (contracted for but not yet incurred)	**34,430**	26,936

Operating lease commitments

The Group as the lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	As at 30 June 2020 Unaudited ***RMB'000***	As at 31 December 2019 Audited *RMB'000*
Within 1 year	**—**	9

The Group rents a number of properties and land under operating leases. The agreements run for an initial period of 1 to 49 years and do not include any an extension or termination option.

Upon the initial application of IFRS 16 as at 1 January 2019, operating lease commitments were remeasured and recognised as adjustments to the lease liabilities as at the date of initial application. Operating lease commitments as at 31 December 2019 shown above only represent lease commitments of the Group for short-term leases.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a well established fine chemical products manufacturer based in the PRC. The Group focuses principally on the manufacture, research and development, and sale of a diversified portfolio of fine industrial chemical products, which can serve a range of purposes, including as hardware and building materials and towards automotive maintenance. The Group's products can be broadly categorised into the following segments: (i) aerosols, (ii) organic silicone adhesives, (iii) synthetic adhesives, and (iv) other miscellaneous products such as architectural coatings, oil products, wood paints and others.

The Group has two principal lines of business operations, namely the manufacture and sale of fine industrial chemical products: (i) under the brands of "SANVO三和" and "FullTeam芙田", and (ii) on an original equipment manufacturing ("**OEM**") basis whereby products are manufactured in accordance with the customer's design and specification and are marketed under the customer's brand name.

The Group recorded revenue of approximately RMB341.8 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB371.4 million), representing a decrease of approximately 8.0% as compared to the same period in 2019.

The gross profit of the Group for the six months ended 30 June 2020 was approximately RMB101.9 million (six months ended 30 June 2019: approximately RMB113.1 million) and recorded a decrease of approximately 9.9% as compared to the same period in 2019.

The profit and total comprehensive income for the six months ended 30 June 2020 attributable to owners of the Company were approximately RMB14.9 million and RMB14.7 million, respectively (six months ended 30 June 2019: approximately RMB16.7 million and RMB16.6 million respectively), representing a decrease of approximately 10.4% and 11.0% as compared to the same period in 2019, respectively.

The basic earnings per share of the Company for the six months ended 30 June 2020 was approximately RMB3.6 cents (six months ended 30 June 2019: approximately RMB4.9 cents).

As at 30 June 2020, the Group had 925 employees (31 December 2019: 881), including the executive Directors. The Group's total employee benefit expenses (including Directors' remuneration and salaries in research and development expenses) were approximately RMB36.7 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB35.9 million). Employee benefit expenses comprised of (i) salaries, allowances and benefits in kind, (ii) discretionary bonus, and (iii) retirement benefit scheme contributions.

The recent outbreak of COVID-19 has a significant impact on global and regional economy (i.e. currency fluctuation, temporary suspension of operation and logistic arrangements and etc.). As a result, the Group's performance for both domestic and OEM markets have been negatively affected in particular in the first half of 2020 as compared to the same period in 2019, as a whole. The management expects that inventories will need to be replenished and economic activities are expected to pick up quickly following the outbreak in the second half of 2020.

The Group will continue focus on the development of (i) the domestic sales network and overseas OEM customers and (ii) the production site located at Shazi Industrial Park, Minzhong Town, Zhongshan City, Guangdong, the PRC (the "**MV Production Site**") in order to increase its production capacity for aerosols related products.

FINANCIAL REVIEW

Revenue

The total revenue of the Group amounted to approximately RMB341.8 million for the six months ended 30 June 2020, representing a decrease of approximately 8.0% from approximately RMB371.4 million for the six months ended 30 June 2019. The decrease of revenue was mainly due to the recent outbreak of COVID-19 which has a significant impact on economy for both domestic and overseas market (i.e. OEM) in the first half of 2020. Since most of the business activities in the PRC has been progressively resumed from the second quarter of 2020, the Group expects that the sales order level will be recovered in the second half of 2020 as compare to the second half of 2019.

Gross profit and gross profit margin

Gross profit of the Group amounted to approximately RMB101.9 million for the six months ended 30 June 2020, representing a decrease of approximately 9.9% from approximately RMB113.1 million for the six months ended 30 June 2019.

The gross profit margin of the Group decreased from approximately 30.5% for six months ended 30 June 2019 to approximately 29.8% for the six months ended 30 June 2020. The gross profit margin level for current period was approximately the same compared to the same period in last year.

Other income and gains

Other income and gains of the Group increased from RMB495,000 for the six months ended 30 June 2019 to RMB2,468,000 for the six months ended 30 June 2020. The increase was mainly attributable to the increase in interest income derived from IPO proceeds and the government unconditional subsidies.

Selling and distribution expenses

Selling and distribution expenses of the Group decreased from RMB48,843,000 for the six months ended 30 June 2019 to RMB42,919,000 for the six months ended 30 June 2020. The decrease was due to less marketing activities engaged by the Group included advertising and promotion activities as a result of COVID-19.

Administrative expenses

Administrative expenses of the Group increased from RMB37,628,000 for the six months ended 30 June 2019 to RMB39,965,000 for the six months ended 30 June 2020. The increase was mainly due to the increase in (i) staff salaries and allowances and (ii) corporate governance and compliance related expenses. The Group has continued to deploy resources to various compliance requirements for corporate governance.

Listing expenses

The Group incurred listing expenses of RMB6,583,000 for the six months ended 30 June 2019 (six months ended 30 June 2020: Nil). These listing expenses were recognised according to the stage of the professional parties completed during the six months ended 30 June 2019.

Finance costs

Finance costs of the Group increased from RMB2,308,000 for the six months ended 30 June 2019 to RMB3,708,000 for the six months ended 30 June 2020. The increase in finance costs was in line with the increase in interest bearing bank borrowings.

Income tax expense

Income tax expense of the Group increased from RMB1,576,000 for the six months ended 30 June 2019 to RMB2,815,000 for the six months ended 30 June 2020. The increase was mainly due to less tax deductible expenses incurred.

Profit for the period

The Group's profit for the six months ended 30 June 2020 was approximately RMB14.9 million, representing a decrease of approximately 10.4% as compared to the profit for six months ended 30 June 2019 of approximately RMB16.7 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Capital structure

The shares of the Company (the "**Shares**") were successfully listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 January 2020 (the "**Listing Date**") and there has been no change in capital structure of the Group since then.

Liquidity and financial resource

The Group recorded net current assets of approximately RMB16.6 million as of 30 June 2020 (31 December 2019: net current liabilities of approximately RMB74.3 million). The decrease in net current liabilities was primarily due to increase in cash position subsequent to the Listing.

The current ratio, calculated by dividing the current assets by current liabilities, was 1.06 as at 30 June 2020 (31 December 2019: 0.72). The gearing ratio, calculated by dividing total interest-bearing bank borrowings by equity of the Group, was 0.84 as at 30 June 2020 (31 December 2019: 1.48). The increase in current ratio and decrease in gearing ratio of approximately 48% and 44%, respectively, was mainly attributable to the (i) increase in cash position subsequent to the Listing and (ii) increase in total equity as a result of profit for the period of approximately RMB14.9 million recorded for the six months ended 30 June 2020.

TREASURY POLICY

The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities, and other commitments can meet its funding requirements all the time.

PRINCIPAL RISKS AND UNCERTAINTIES

Price of raw materials

Our production process requires reliable and stable sources of large quantities of raw materials from third parties. We generally maintain a certain level of inventory of our raw materials for future production or to meet future demand according to our production plan and we do not have hedging arrangements against fluctuations in raw material prices and therefore we bear the risks associated with raw material cost fluctuations. The pricing of our raw materials is also sensitive to supply disruptions, general economic conditions, and many other factors that are beyond our control. We expect the prices of some of our key raw materials may increase in the future. If we are unable to reflect increases in the price of raw materials efficiently or adequately in the selling prices of our products, our cost base may increase, which may lead to a reduction in our gross profit margin, and the operating results for our products may be materially and adversely affected.

Market risks

The market in which we operate is highly competitive and fragmented. Competitive factors include product quality, price, design and development capability, timely delivery, valuable service, scale and capacity, and efficiency. We face competition from existing and new players in the fine industrial chemicals industry worldwide, including numerous manufacturers in the PRC and elsewhere which offer similar fine industrial chemical products at lower prices than we do, as well as other enterprises which offer an increasing number of related products which could be used as substitutes for our products.

We expect competition in our industry to intensify in the future. There can be no assurance that we can stay competitive due to improvements by our competitors or other factors. To compete effectively, we may be forced, among other actions, to reduce prices, provide more sales incentives to customers and increase capital expenditures in our labour force, plant, property and equipment. Any intensification of the competition or failure by us to compete successfully with our competitors could have an adverse impact on the demand for, and pricing of, our products, and as a result, could result in a reduction of our market share and have an adverse effect on our business, financial condition, results of operations and prospects.

Compliance risks

Under relevant PRC laws and regulations, we are required to hold various licences and permits in order to conduct our business. We are also required to comply with applicable regulations and standards in relation to our production and the quality of our products. These registrations, licenses, permits and certificates may only be valid for a limited period of time and may be subject to periodic reviews and renewal by the relevant authorities. Failure to comply with these laws and regulations, or the loss of or failure to renew our licences and permits or any change in the government policies, could lead to temporary or permanent suspension of some of our business operations or the imposition of penalties on us, which could adversely affect our results of operations and financial condition.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits and borrowings. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those financial assets stated in the Group's condensed consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade, bills and other receivables. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In this regard, the Directors consider that the impact to the Group's credit risk is insignificant.

Liquidity risk

The Group's management monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available and issue of new ordinary shares.

BANK BORROWINGS AND PLEDGE OF ASSETS

As at 30 June 2020, the Group had interest-bearing bank borrowings of RMB147,916,000 (31 December 2019: RMB124,810,000). The interest rate of the relevant banking borrowings was charged in the range of 3.08% to 6.47% per annum for the six months ended 30 June 2020 (six months ended 30 June 2019: 5.88% to 6.47%).

As at 30 June 2020, a portion of the Group's bank deposits amounting to RMB51,877,000 (31 December 2019: RMB23,000,000) were pledged as collaterals for, amongst others, issues of bills payable for the Group's purchase of raw materials, other credit facilities and guarantee to complete construction work for the leasehold land acquired.

At the end of each reporting period, the Group's interest-bearing bank borrowings were secured by the following assets:

	As at 30 June 2020 *RMB'000*	As at 31 December 2019 *RMB'000*
Property, plant and equipment	—	37,967
Right-of-use assets	**87,682**	89,093
Inventories	—	16,406

As at 31 December 2019, the Group's interest-bearing bank borrowings were also secured by the properties of Mr. Chen Bingqiang ("**Mr. Ernest Chen**") and Mr. Chen Bingyao ("**Mr. Leo Chen**"). At the end of March 2020, the interest-bearing bank borrowings secured by properties of Mr. Ernest Chen and Mr. Leo Chen were fully released.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rule**") and the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Yeung Chun Yue David (Chairman), Ir. Daniel Lai and Mr. Xu Kai. The primary duties of the Audit Committee are, among others, to review and supervise the Group's financial reporting process and internal controls. In each Audit Committee meeting, the Audit Committee was supplied with the necessary financial information of the Group for members to consider, review and access significant issues arising from the work conducted.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 has been reviewed by the Audit Committee. The Audit Committee and the management of the Company were satisfied that the Group's unaudited condensed consolidated interim financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the period and that adequate disclosures had been made according to the applicable rules and regulations.

INTERIM DIVIDEND

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

CONTINGENT LIABILITIES AND LITIGATION

The Group did not have any material contingent liabilities and litigation as at the date of this announcement.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts to the environment from its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to comply with related environmental laws and legislations, and continual improvement on its performance. For details, please refer to the Environmental, Social and Governance Report for the year ended 31 December 2019 issued by the Company dated 24 April 2020 (the "**Environmental, Social and Governance Report**").

KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group strives to maintain a good relationship with its employees, customers and suppliers. For more details on how it creates a motivated workplace for its employees, produce quality products to satisfy its customers' expectations and, establish long-term relationships with its suppliers, please refer to the Environmental, Social and Governance Report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the six months ended 30 June 2020, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group will continue to invest in its development projects and acquire suitable plant and machinery, as and when it thinks fit. These investments will be funded by internal resources of the Group, external equity financing and/or borrowings and net proceeds from the share offer. Save as disclosed in the prospectus of the Company dated 27 December 2019 (the "**Prospectus**") and in this announcement, the Group did not have any future plans for material investments as at the date of this announcement.

USE OF PROCEEDS

On the Listing Date, 90,000,000 ordinary shares with a par value of HK$0.01 each of the Company were issued at a price of HK$1.30 per share by way of share offer (the "**Share Offer**"). The net proceeds received by the Group from the Share Offer after deducting the related underwriting commissions and other listing expenses, were approximately HK$75.2 million (the "**IPO Proceeds**"). The IPO Proceeds are intended to be utilised in accordance with the proposed application as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at the date of this announcement, the utilisation of the IPO Proceeds is as follows:

	Allocation as disclosed in the Prospectus *HK$'000*	Amount utilised during the six months ended 30 June 2020 *HK$'000*	Remaining balance as at 30 June 2020 *HK$'000*
Investment in new manufacturing facility at the MV Production Site	**60,200**	**1,076**	**59,124**
Sales and marketing activities to enhance brand recognition in the PRC and overseas	**7,500**	**480**	**7,020**
Working capital and other general corporate purpose	**7,500**	**3,595**	**3,905**
Total	**75,200**	**5,151**	**70,049**

As at the date of this announcement, the unutilised proceeds were placed in interest-bearing deposits with authorised financial institutions or licensed banks in Hong Kong and the PRC. The Directors regularly evaluate the Group's business objective and may change or modify plans against the changing market condition to ascertain the business growth of the Group. From the Listing Date up to the date of this announcement, the Board considered that no modification of the use of proceeds described in the Prospectus was required.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance practices as we believe that effective corporate governance practices are able to (i) enhance management effectiveness and efficiency; (ii) increase the transparency of the Group; and (iii) enhance risk management and internal control of the Group, and are fundamental to safeguarding the interests of its shareholders and other stakeholders, and to enhancing shareholder value.

In the opinion of the Board, throughout the six months ended 30 June 2020, the Company has complied with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code under Appendix 14 to the Listing Rules, except for the following deviation:

Code Provision A.6.7 stipulates that independent non-executive Directors of the Company should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Xu Kai, being an independent non-executive Director, was not able to attend the annual general meeting of the Company held on 18 June 2020 (the "**AGM**") due to arrangement and policies adopted by the HKSAR in relation to the COVID-19, that the transportation links and border checkpoints connecting Hong Kong with the PRC have been shut down. However, the Company has reported on the items discussed at the AGM and the feedback from the shareholders to Mr. Xu Kai for his attention.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Ernest Chen is the chairman of the Board and the chief executive officer of the Company. In view of that Mr. Ernest Chen has been assuming day-to-day responsibilities in operating and managing the Group, the Board believes that with the support of Mr. Ernest Chen's extensive experience and knowledge in the business of the Group, vesting the roles of both chairman and chief executive officer of the Company in Mr. Ernest Chen strengthens the solid and consistent leadership and thereby allows for efficient business planning and decision which is in the best interest to the Group. The Directors consider that the deviation from Code Provision A.2.1 is appropriate in such circumstances. Notwithstanding the above, the Board is of the view that this management structure is effective for the Group's operations, and sufficient checks and balances are in place. The Directors are committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Company and its shareholders as a whole. The Board will continue to review and consider segregating the roles of chairman of the Board and the chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules (the "**Model Code**") to regulate the dealings of Directors of the Company in the Group's securities. Upon specific enquiries made by the Company, all Directors have confirmed their compliance with the Model Code during the six months ended 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the six months ended 30 June 2020. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the six months ended 30 June 2020.

SHARE OPTIONS

SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 13 December 2019. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and

(ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

Since the adoption of the Share Option Scheme, and up to the date of this announcement, no option was granted exercised, cancelled or lapsed under the Share Option Scheme.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this announcement, at no time during the six months ended 30 June 2020 was the Company, its holding company, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate or had exercised any such right.

PARTICULARS OF THE DIRECTORS' SERVICE CONTRACTS

As at 30 June 2020, none of the Directors had entered or was proposing to enter into a service contract with the Company or any member of the Group which is not determinable within one year without payment or compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2020, none of our Directors or their respective close associates (other than members of our Group) has any interest in a business, apart from the business of our Group, which competes or likely compete, either directly or indirectly, with the business of the Group which would require disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this announcement, neither the Directors nor any entity connected with the Directors had a material interests, whether directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the six months ended 30 June 2020.

CHANGE IN INFORMATION OF THE DIRECTORS

During the six months ended 30 June 2020, there were no material changes of the information of the Directors that required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF THE SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2020 and up to the date of this announcement, the Group did not hold any significant investment and had no material acquisition or disposal of its subsidiaries and associated companies.

SIGNIFICANT EVENTS AFTER REPORTING PERIOD

No significant events affecting the Group have occurred since the end of the six months ended 30 June 2020 and up to the date of this announcement.

PUBLICATION OF THE INTERIM REPORT

This interim results announcement will be published on the website of each of the Stock Exchange (www.hkexnews.com.hk) and the Company (www.sanvo.com). An interim report of the Company for the six months ended 30 June 2020 will be despatched to the Shareholders and available on the same websites in due course.

By Order of the Board
SANVO Fine Chemicals Group Limited
Mr. Chen Bingqiang
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 28 August 2020

As at the date of this announcement, the executive Directors are Mr. Chen Bingqiang, Mr. Chen Bingyao and Mr. Ng Cheuk Lun; and the independent non-executive Directors are Ir. Daniel Lai, Mr. Xu Kai and Mr. Yeung Chun Yue David.