GHW International

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9933)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- For the year ended 31 December 2020, revenue of the Group amounted to approximately RMB2,103.9 million, representing an increase of approximately RMB137.8 million or 7.0% comparing with the corresponding period in 2019.
- For the year ended 31 December 2020, gross profit of the Group amounted to approximately RMB273.3 million, representing an increase of approximately RMB27.6 million or 11.2% comparing with the corresponding period in 2019.
- For the year ended 31 December 2020, net loss of the Group amounted to approximately RMB5.2 million, as compared to net profit of approximately RMB29.1 million in 2019.
- For the year ended 31 December 2020, the adjusted loss of the Group (excluding listing expenses) amounted to approximately RMB5.2 million, as compared to the adjusted profit of approximately RMB40.1 million in 2019.
- For the year ended 31 December 2020, basic loss per share of the Group amounted to approximately RMB0.005, as compared to basic earnings per share of approximately RMB0.039 in 2019.
- The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2020.

The board (the **"Board"**) of directors (the **"Director(s)"**) of GHW International (the **"Company"**) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the **"Group"**) for the year ended 31 December 2020 together with the comparative figures for the year ended 31 December 2019 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		Year ended 31 December	
	Notes	**2020**	2019
		RMB'000	RMB'000
Revenue	4	**2,103,882**	1,966,055
Cost of sales		**(1,830,612)**	(1,720,352)
Gross profit		**273,270**	245,703
Other income	5	**7,564**	5,948
Other gains and losses	5	**(16,729)**	6,867
Impairment losses under expected credit loss model, net of reversal		**(1,009)**	59
Selling and distribution expenses		**(117,214)**	(89,687)
Administrative expenses		**(82,960)**	(74,624)
Research and development expenses		**(43,306)**	(34,745)
Listing expenses		**—**	(10,994)
Finance costs	6	**(26,258)**	(16,681)
(Loss) profit before taxation	7	**(6,642)**	31,846
Taxation	8	**1,467**	(2,739)
(Loss) profit for the year		**(5,175)**	29,107

	Note	Year ended 31 December **2020** **RMB'000**	 2019 RMB'000
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**6,878**	(3,167)
Fair value gain (loss) on bill receivables at fair value through other comprehensive income ("**FVTOCI**")		**207**	(444)
Income tax relating to an item that may be reclassified subsequently to profit or loss		**(36)**	72
Other comprehensive income (expense) for the year, net of income tax		**7,049**	(3,539)
Total comprehensive income for the year		**1,874**	25,568
(Loss) profit for the year attributable to owners of the Company		**(5,175)**	29,107
Total comprehensive income attributable to owners of the Company		**1,874**	25,568
(Loss) earnings per share			
- Basic (RMB per share)	10	**(0.005)**	0.039
- Diluted (RMB per share)	10	**(0.005)**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment		**273,876**	212,592
Right-of-use assets		**54,701**	58,216
Rental deposits		**667**	626
Finance lease receivable		**—**	452
Deferred tax assets		**1,575**	475
Prepayment for acquisition of an intangible asset		**650**	—
		331,469	272,361
Current assets			
Inventories		**196,760**	166,797
Finance lease receivable		**477**	477
Trade receivables	11	**158,031**	161,426
Bill receivables at FVTOCI	12	**45,821**	54,802
Other receivables and prepayments		**49,903**	54,347
Amounts due from immediate holding companies		**—**	70
Tax recoverable		**275**	427
Financial asset at fair value through profit or loss ("**FVTPL**")		**653**	—
Derivative financial instruments		**4,025**	—
Restricted bank deposits		**172,429**	108,816
Bank balances and cash		**61,906**	35,716
		690,280	582,878
Current liabilities			
Trade and bill payables	13	**162,156**	154,912
Other payables and accrued charges		**61,664**	53,024
Lease liabilities		**4,529**	5,712
Contract liabilities		**18,836**	13,370
Amount due to a shareholder		**—**	5
Tax liabilities		**883**	2,395
Borrowings		**398,176**	311,987
Dividend payables		**—**	1,800
		646,244	543,205
Net current assets		**44,036**	39,673
Total assets less current liabilities		**375,505**	312,034

	Note	As at 31 December	
		2020	2019
		RMB'000	RMB'000
Non-current liabilities			
Borrowings		**83,265**	189,510
Loans from a related company		**81,435**	—
Lease liabilities		**4,838**	6,193
Deferred tax liabilities		**472**	1,769
		170,010	197,472
Net assets		**205,495**	114,562
Capital and Reserves			
Share capital	14	**8,844**	9
Reserves		**196,651**	114,553
Total equity		**205,495**	114,562

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL

GHW International is a public limited company incorporated in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands as an exempted company with limited liability on 25 April 2018 and its shares ("**Share(s)**") are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 21 January 2020. The controlling shareholders of the Company are Mr. Yin Yanbin ("**Mr. Yin**") and Ms. Wu Hailing ("**Ms. Wu**"), the spouse of Mr. Yin. The addresses of the Company's registered office and the principal place of business are Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands and 6th Building, Xincheng Science Park, No. 69 Aoti Street, Nanjing, the People' Republic of China (the "PRC"), respectively.

The Company is an investment holding company. The principal activities of its subsidiaries are the manufacture and sale of chemical and pharmaceutical products.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries have been prepared based on the accounting policies in accordance with International Financial Reporting Standards (**"IFRSs"**) issued by the International Accounting Standards Board (the **"IASB"**). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include the applicable disclosures required by the Rules (the **"Listing Rules"**) Governing the Listing of Securities on the Main Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

The Directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. APPLICATION OF AMENDMENTS OF IFRSs

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework* in IFRSs and the following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to International Accounting Standards ("**IAS**") 1 and IAS 8	*Definition of Material*
Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*

The application of the *Amendments to References to the Conceptual Framework* in IFRSs and the amendments to IFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020[2]

[1] *Effective for annual periods beginning on or after 1 January 2023.*

[2] *Effective for annual periods beginning on or after 1 January 2022.*

[3] *Effective for annual periods beginning on or after a date to be determined.*

[4] *Effective for annual periods beginning on or after 1 June 2020.*

[5] *Effective for annual periods beginning on or after 1 January 2021.*

The Directors anticipate that the application of all new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from manufacture and sale of chemical related products and medicine for both years.

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Types of goods		
Animal nutrition	**757,870**	603,530
Polyurethane materials	**700,293**	654,573
Medicine	**423,319**	438,141
Fine chemicals	**212,620**	256,982
Others	**9,780**	12,829
	2,103,882	1,966,055
Timing of revenue recognition		
A point in time	**2,103,882**	1,966,055

The Group's revenue are under fixed price arrangement with corporate customers. Under the Group's standard contract terms, the credit term is generally 60 days and customers have a right to exchange or return the goods only under the condition of quality issue tested by a third-party testing institution. In the opinion of the Directors, based on historical experiences, the impact of revenue reversal would be immaterial.

All performance obligations for sales of goods are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to unsatisfied performance obligations as at the end of the reporting period is not disclosed.

For the purpose of resources allocation and performance assessment, the key management of the Group, being the chief operating decision maker, reviews the consolidated results as a whole when making decisions about allocating resources and assessing performance of the Group and hence, the Group has only one reportable segment and no further analysis of this single segment is presented.

Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers Year ended 31 December		**Non-current assets (excluding deferred tax assets, finance lease receivable and financial instruments) As at 31 December**	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC	**1,631,984**	1,530,269	**284,224**	221,488
Europe	**194,132**	151,228	**755**	1,067
Vietnam	**115,181**	133,163	**34,333**	36,901
Other countries in Asia (excluding the PRC and Vietnam)	**78,487**	78,521	**9,409**	10,624
Others	**84,098**	72,874	**506**	728
	2,103,882	1,966,055	**329,227**	270,808

Information about major customers

There was no revenue from individual customer contributing over 10% of total revenue of the Group during both years.

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Other income		
Government grants (note 1)	**4,005**	5,181
Rental income	**73**	287
Bank interest income	**3,283**	403
Interest income on finance lease receivable	**38**	28
Others	**165**	49
	7,564	5,948
Other gains and losses		
Net exchange (losses) gains	**(15,680)**	6,351
Losses on disposals of plant and equipment	**(3,487)**	(33)
Fair value changes on derivative financial instruments		
– commodity derivative contracts (note 2)	**1,862**	—
– foreign currency future contracts (note 3)	**177**	—
Gain on sublease of right-of-use assets	**—**	275
Others	**399**	274
	(16,729)	6,867

Notes:

1. The relevant government authority granted one-off and unconditional subsidies to the Group amounting to RMB2,855,000 (2019: RMB5,181,000) and RMB1,150,000 (2019: nil) in relation to the Group's contribution in local district and subsidies in relation to the COVID-19 pandemic, which were recognised in the profit or loss in the year which they received.

2. During the year ended 31 December 2020, amount represented realised gains of RMB1,073,000 (2019: nil) and unrealised gains of RMB789,000 (2019: nil) arising on changes in fair value of commodity derivative contracts.

3. During the year ended 31 December 2020, amount represented realised gains of RMB5,000, RMB76,000, RMB52,000 and RMB44,000 (2019: nil) on changes in fair value of RMB, Russian Ruble, Canadian Dollar and European dollar ("**EUR**") to United States Dollar ("**US$**") foreign currency future contracts respectively.

6. FINANCE COSTS

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Interest on borrowings	**20,924**	14,159
Interest on discounted bills	**3,705**	2,201
Interest on loans from a related company	**1,214**	—
Interest on lease liabilities	**415**	321
	26,258	16,681

7. (LOSS) PROFIT BEFORE TAXATION

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(Loss) profit before taxation has been arrived at after charging (crediting) to profit and loss:		
Auditors' remuneration	**2,145**	2,318
Cost of inventories recognised as expenses	**1,829,772**	1,719,236
Depreciation of property, plant and equipment	**24,660**	20,717
Depreciation of right-of-use assets	**6,424**	5,482
Total depreciation	**31,084**	26,199
Capitalised as cost of inventories manufactured	**(21,605)**	(16,496)
	9,479	9,703
Directors' remuneration	**4,508**	4,560
Other staff costs		
Salaries and other benefits	**71,975**	57,158
Retirement benefits	**5,896**	9,249
Total staff costs	**82,379**	70,967
Research and development costs recognised as an expense	**43,306**	34,745
Gross rental income	**(73)**	(287)
Less: direct operating expenses	**61**	184
	(12)	(103)
Write-down of inventories	**840**	1,116

8. TAXATION

The Company was incorporated in the Cayman Island and is exempted from the Cayman Islands income tax.

No provision for income tax has been made for subsidiaries in the United States, Seychelles, Russian, Ukraine, Hong Kong and Canada, as there was no estimated assessable profit during both years.

Pursuant to the Enterprise Income Tax Laws and Implementation Regulations of the Law of the PRC (the “PRC EIT Law”), the applicable tax rate of PRC subsidiaries is 25% for both years.

In 2019, Taian Havay Group Co., Ltd. further extended for three years as a High and New Technology Enterprise and enjoyed a tax rate of 15% for both years according to the PRC EIT Law.

Nanjing Tianyu Transportation Co., Ltd., Wuhan Jinruntai Chemicals Co., Ltd., Taian Yueda Logistics Co., Ltd., Zhangjiagang Free Trade Zone Haijinsha International Trading Co., Ltd. and Xuzhou Havay Feeds Co., Ltd. were qualified as small low-profit enterprises and enjoyed a preferential tax rate of 20% with 75% reduction of their taxation income during the years ended 31 December 2019 and 2020 (i.e. 5%). Nanjing Hanshang Weisou Electronic Commerce Co., Ltd. was qualified as small low-profit enterprises and enjoyed a preferential tax rate of 20% with 75% reduction of their taxation income during the year ended 31 December 2020 (i.e. 5%).

Under the tax law in Vietnam, GHW (Vietnam) Co., Ltd. has been granted to enjoy 2-year exemption of income tax followed by 4-year 50% reduction of income tax from the first profit-making year (i.e. 10%). No assessable profit was generated during both years.

Pursuant to the relevant tax law of Slovak, Slovak profits tax has been provided at the rate of 21% on the estimated assessable profits arising in Slovak during both years.

Pursuant to the relevant tax law of India, India profits tax has been provided at the rate of 18.5% on the estimated assessable profits arising in India during both years.

Pursuant to the relevant tax law of Mexico, Mexico profits tax has been provided at the rate of 30% on the estimated assessable profits arising in Mexico during both years.

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Current tax	**883**	2,931
Under (over) provision in prior years	**83**	(967)
	966	1,964
Deferred tax	**(2,433)**	775
Total	**(1,467)**	2,739

9. DIVIDEND

No dividend was paid or declared by the Company for both years, nor has any dividend been proposed since the end of the reporting period.

10. (LOSS) EARNINGS PER SHARE

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(Loss) earnings:		
(Loss) earnings for the purposes of calculating basic and diluted loss per share (2019: basic earnings per share) attributable to owners of the Company	**(5,175)**	29,107

	Year ended 31 December	
	2020	2019
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share (2019: basic earnings per share)	**986,339**	750,000

The weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share (2019: basic earnings per share) has been determined on the assumption that the Capitalisation Issue (as defined in note 14) had been effective on 1 January 2019.

The computation of diluted loss per share for the year ended 31 December 2020 does not assume the exercise of the Company's over-allotment option since the assumed exercise would result in a decrease in loss per share.

No diluted earnings per share was presented as there were no potential ordinary shares in issue for the year ended 31 December 2019.

11. TRADE RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	**166,183**	169,234
Less: allowance for credit losses	**(8,152)**	(7,808)
	158,031	161,426

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB150,572,000, net of allowance for credit losses of RMB8,002,000.

Generally, credit terms of 60 days is granted to customers. An aging analysis of the trade receivables presented based on the invoice dates, which approximate the dates of revenue recognition, at the end of the reporting period:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
0-30 days	**95,241**	102,043
31-60 days	**40,960**	38,661
61-90 days	**10,320**	7,941
Over 90 days	**11,510**	12,781
	158,031	161,426

The management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributable to customers are reviewed regularly.

As at 31 December 2020, carrying amount of trade receivables amounted to RMB2,475,000 (2019: nil) have been pledged as security for the Group's borrowing.

The Group does not hold any collateral over these balances.

The carrying amounts of the Group's trade receivables that were denominated in foreign currencies other than the functional currencies of the relevant group entities are set out below:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
US$	**20,991**	24,794
EUR	**588**	—
	21,579	24,794

12. BILL RECEIVABLES AT FVTOCI

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Bill receivables at FVTOCI	**45,821**	54,802

The following is an aging analysis of bill receivables at FVTOCI presented based on bill issuance date at the end of the reporting period:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
0-180 days	**41,797**	54,802
Over 180 days	**4,024**	—
	45,821	54,802

As at 31 December 2020, the Group has pledged bill receivables at FVTOCI with a total net book value of RMB42,831,000 (2019: RMB51,327,000) to secure general banking facilities granted to the Group.

13. TRADE AND BILL PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables	**134,499**	128,069
Bill payables	**27,657**	26,843
	162,156	154,912

The following is an aging analysis of bill payables at the end of the reporting period:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
0-180 days	**27,657**	26,843

All bill payables of the Group are with a maturity period of less than one year.

The credit period on purchase of inventories is generally 90 days. The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
0-30 days	**78,678**	81,242
31-60 days	**22,479**	28,608
61-90 days	**10,846**	5,431
Over 90 days	**22,496**	12,788
	134,499	128,069

The carrying amounts of the Group's trade payables that were denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
US$	**22,270**	20,682
EUR	**—**	425
	22,270	21,107

14. SHARE CAPITAL

On 3 January 2019, for the purpose of redenomination of Shares from US$ to Hong Kong Dollar ("**HK$**"), (a) the Company increased the authorised share capital to HK$100,000,000 divided into 10,000,000,000 shares of a par value of HK$0.01 each; (b) allotted and issued 500,000 nil-paid shares of a par value of HK$0.01 each, 237,522 nil-paid shares of a par value of HK$0.01 each, 248,078 nil-paid shares of a par value of HK$0.01 and 14,400 nil-paid shares of a par value of HK$0.01 each to Commonwealth B Limited, Commonwealth Happy Elephant Limited, Commonwealth GHW Limited and Commonwealth Feibear Limited, respectively, for an aggregate price of US$10,000 (the "Subscription Price"); (c) repurchased all the old shares for an aggregate price of US$10,000, which was offset against the Subscription Price; (d) cancelled all the old shares following the repurchase and diminished the authorised but unissued share capital of the Company by the cancellation of all the 50,000,000 unissued shares of a par value of US$0.001 each in the share capital of the Company, and the authorised share capital of the Company became HK$100,000,000 divided into 10,000,000,000 shares of a par value of HK$0.01 each.

Pursuant to written resolutions of the Company's shareholders passed on 16 December 2019, on 21 January 2020, the Company allotted and issued a total of 749,000,000 shares, by way of capitalisation ("**Capitalisation Issue**") of the sum of HK$7,490,000 (equivalent to RMB6,624,000) standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholders as appearing on the register of members of the Company.

On 21 January 2020, the Company issued 250,000,000 new shares at HK$0.51 each upon initial public offering in an aggregate gross amount of HK$127,500,000 (equivalent to RMB112,757,000).

Details of the movement in the Company's shares are disclosed as follows:

	Number of Shares	Amount
		US$
Ordinary shares of US$0.001 each		
Authorised		
At 1 January 2019	50,000,000	50,000
Cancelled during the year	(50,000,000)	(50,000)
At 3 January 2019 and 31 December 2019	—	—
Issued and fully paid		
At 1 January 2019	10,000,000	10,000
Cancelled during the year	(10,000,000)	(10,000)
At 3 January 2019 and 31 December 2019	—	—

	Number of Shares	Amount
		HK$
Ordinary shares of HK$0.01 each		
Authorised		
At 3 January 2019, 31 December 2019 and 2020	10,000,000,000	100,000,000
Issued and fully paid		
At 3 January 2019 and 31 December 2019	1,000,000	10,000
Issue of shares upon Capitalisation Issue	749,000,000	7,490,000
Issue of shares upon initial public offering	250,000,000	2,500,000
At 31 December 2020	1,000,000,000	10,000,000

	RMB'000
Presented as at 31 December 2020	**8,844**
Presented as at 31 December 2019	9

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are an applied chemical intermediates provider in the integrated chemical services market, which primarily engage in the production and sales of our chemicals and sales of chemicals produced by third party manufacturers based in the PRC, the Southeast Asia region, Europe and the United States (the "**US**"). With headquarters in the PRC, we offer a comprehensive product portfolio with a wide range of applications and a full spectrum of services relating to chemical intermediates supply chain through our extensive global operation and sales network, including research and development on production processes, strong product customisation capabilities, manufacturing of quality chemical products, sourcing of wide-ranging chemicals manufactured by third party manufacturers, efficient and safe logistics services and after-sales services.

Our business operation consists of four principal business segments which include polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates.

Polyurethane materials are widely used in cushion foams, interior components and other lightweight automotive parts to foster fuel and energy savings.

The two major products under our animal nutrition chemicals segment are additives commonly used in feeds for poultry and livestock, which are crucial to the downstream animal husbandry industries. Choline chloride is a complex vitamin which is added as an important nutrient in animal feeds for the acceleration of animal growth as well as a clay stabiliser used in oil and gas drilling and hydraulic fracturing while betaine can be used as dietary feeding attractants which have important physiological functions within the animal bodies and improves the growth and survival rate of fish, poultry, swine and other animals.

Under our fine chemicals segment, we mainly procure our products such as carboxylic acids, solvents, resins, and oleochemicals from third party manufacturers for onward selling to our customers. Carboxylic acids are widely used in the synthesis of dyes, production of lubricants, flavours and fragrances while solvents are used in the production of cosmetics, feed additives, paint and synthesis of dyes. The major use of resins and oleochemicals involve the production of cosmetics, emulsifiers and lubricants.

We produce our own products of isooctanoic acid and diethyl sulfate at our Tai'an production plant, which are mainly used for paint drier, fungicide, preservative and pharmaceutical raw materials, and synthesis of dyes, pesticides and pharmaceutical intermediates, respectively.

We also produce and sell our own pharmaceutical intermediates which are chemical compounds used in the production of active pharmaceutical ingredients, such as iodine and iodine derivatives as well as selling pharmaceutical products sourced from third party manufacturers such as cefpodoxime dispersible tablets.

BUSINESS REVIEW

During the year ended 31 December 2020, our Group recorded a revenue of approximately RMB2,103.9 million (2019: RMB1,966.1 million), representing an increase by 7.0% as compared to last year.

The increase in revenue was mainly attributable to the increase in revenue generated from (i) our self-manufactured chemicals in animal nutrition chemicals segment as a result of the increase in our production capacity since second half of 2020; and (ii) polymeric methylene diphenyl diisocyanate ("**polymeric MDI**") in our polyurethane materials segment due to our stable supply of polymeric MDI throughout the year, even there was suspension of production of a major polymeric MDI manufacturer in the Europe in July 2020 due to the outbreak of the novel coronavirus (COVID-19) pandemic, leading to a shortage of supply of polymeric MDI in the market during the third and the early fourth quarter in 2020, offset by the decrease in revenue from sales of chemicals produced by third parties as affected by the outbreak of the COVID-19 pandemic.

The net loss attributed to owners of the Company for the year ended 31 December 2020 amounted to approximately RMB5.2 million (2019: profit attributed to owners of the Company of RMB29.1 million). Although we had an increased gross profit and gross profit margin during the financial year under review, we experienced a loss for the year, which was mainly attributable to (i) the significant increase in selling and distribution expenses primarily due to the surged in both domestic and international logistic costs (including transportation, port charges, storage and shipment costs) under the COVID-19 pandemic, while in the meantime our sales volume of animal nutrition products, especially choline chloride, and polymeric MDI has also increased during the year; (ii) the Group recorded a net exchange loss of approximately RMB15.7 million during the year mainly as a result of depreciation of US$ against RMB, compared to a net exchange gain of approximately RMB6.4 million recorded during the year ended 31 December 2019; and (iii) the increase in finance costs due to the increase in average bank and other borrowings balance, including bank issued bill receivables discounted to banks, and loans from a related company during the year.

Details of our financial performance is further explained below.

FINANCIAL REVIEW

Revenue

The table below sets forth the breakdown of our revenue by business segments during the year ended 31 December 2020:

Total revenue by business segments

	For the year ended 31 December			
	2020		2019	
	RMB'000	**% of total revenue**	RMB'000	% of total revenue
Polyurethane materials	**700,293**	**33.3%**	654,573	33.3%
Animal nutrition chemicals	**757,870**	**36.0%**	603,530	30.7%
Fine chemicals	**212,620**	**10.1%**	256,982	13.0%
Pharmaceutical products and intermediates	**423,319**	**20.1%**	438,141	22.3%
Sub-total	**2,094,102**	**99.5%**	1,953,226	99.3%
Others (note)	**9,780**	**0.5%**	12,829	0.7%
Total	**2,103,882**	**100.0%**	1,966,055	100.0%

	For the year ended 31 December			
	2020		2019	
	RMB'000	**% of total revenue**	RMB'000	% of total revenue
Self-manufactured chemicals	**1,289,912**	**61.3%**	1,154,867	58.7%
Chemicals produced by third parties	**804,190**	**38.2%**	798,359	40.6%
Sub-total	**2,094,102**	**99.5%**	1,953,226	99.3%
Others (note)	**9,780**	**0.5%**	12,829	0.7%
Total	**2,103,882**	**100.0%**	1,966,055	100.0%

Note: Others primarily include revenue generated from transportation of hazardous chemicals for third parties in the PRC.

Polyurethane materials

Our revenue generated from sales of polyurethane materials increased from approximately RMB654.6 million for the year ended 31 December 2019 to approximately RMB700.3 million for the year ended 31 December 2020, primarily due to the increase in our average selling price as well as our sales volume of polymeric MDI, being the major product in this segment, offset by the decrease in sales volume in other products such as toluene diisocyanate ("**TDI**"), polymer polyether and polyurethane foam.

Our average selling price of polymeric MDI increased from approximately RMB11,600 per tonne for the year ended 31 December 2019 to approximately RMB12,900 per tonne for the year ended 31 December 2020, primarily because of (i) the increase in demand from PRC downstream customers after the significant recovery of economy in the PRC in the second half of 2020; and (ii) the suspension of production of a major polymeric MDI manufacturer in Europe in July 2020, due to the outbreak of COVID-19, which led to a shortage of supply of polymeric MDI in the market during the third and the early fourth quarter in 2020.

Our sales volume of polymeric MDI increased from approxiamtely 28,705 tonnes to approximately 32,499 tonnes. The increase in sales volume was primarily due to the fact that our stable supply of polymeric MDI had attracted more downstream customers and resulted in an increase in sales volume in the second half of 2020 during the period of shortage of supply of polymeric MDI. We were also able to sell the polymeric MDI at a higher gross profit margin compared to last year resulting from our product procurement strategy.

Our sales volume of TDI, polymer polyether and polyurethane foam decreased from approxiamtely 7,091 tonnes, 11,516 tonnes and 1,643 tonnes to approximately 6,528 tonnes, 10,528 tonnes and 691 tonnes, respectively. The decrease in sales volume was primarily due to the outbreak of COVID-19 in the PRC since the latter half of January 2020 and the continuous outbreaks in western countries in the following quarters of 2020. The COVID-19 outbreak brought a negative impact to the demand of these products. Besides, for TDI, the market supply was still in excess due to the commencement of production of the new TDI production facilities with annual production capacity of approximately 300,000 tonnes by the largest PRC polyurethane materials manufacturer, which was a competitor of our upstream suppliers, leading to a decreasing average market price of TDI and a narrower gross profit margin from trading of TDI. Our overseas marketing activities were also affected due to implementation of travel restrictions and lockups, which had significantly disrupted our overseas sales. As a result, the sales volume of these products had decreased.

Animal nutrition chemicals

Our revenue generated from sales of animal nutrition chemicals increased from approximately RMB603.5 million for the year ended 31 December 2019 to approximately RMB757.9 million for the year ended 31 December 2020, primarily due to the increase in sales volume of choline chloride and betaine.

During the year ended 31 December 2020, sales of choline chloride accounted for approximately 85% of our revenue under the animal nutrition chemicals segment. The revenue generated from sales of choline chloride increased from approximately RMB525.6 million for the year ended 31 December 2019 to approximately RMB631.1 million for the year ended 31 December 2020, primarily due to the increase in both of our domestic and export sales volume of choline chloride during the financial year under review. Our sales volume of choline chloride and betaine increased from approximately 118,733 tonnes and 9,157 tonnes for the year ended 31 December 2019 to approximately 151,516 tonnes and 16,240 tonnes for the year ended 31 December 2020, respectively. Upon completion of the production facilities upgrade and technological enhancement on the production processes, our production capacity for choline chloride and betaine at our Tai'an production plant has reached approximately 150,000 tonnes and 18,000 tonnes, respectively, in second half of 2019. We aimed to increase our market share for choline chloride and betaine upon the increase in our production capacity. In addition, we believe that our marketing efforts also contributed to the increase in sales volume of choline chloride and betaine over the past few years. Benefiting from the economy of scale, the Group maintained its competitiveness in the market and was able to increase its choline chloride market share in 2020 with an increasing gross profit margin.

Fine chemicals

Our revenue generated from sales of fine chemicals decreased from approximately RMB257.0 million for the year ended 31 December 2019 to approximately RMB212.6 million for the year ended 31 December 2020, primarily due to the outbreak of COVID-19 which led to the decrease in demand of our fine chemicals products such as propionic acid, caster oil and isooctanoic acid from our downstream customers as their operations were affected by the pandemic. The decrease in market price of cruel oil also led to the decrease in average market prices of our fine chemical products.

Pharmaceutical products and intermediates

Our revenue generated from sales of pharmaceutical products and intermediates slightly decreased from approximately RMB438.1 million for the year ended 31 December 2019 to approximately RMB423.3 million for the year ended 31 December 2020, primarily due to the decrease in sales volume of iodine and cefpodoxime dispersible tablets, offset by the increase in average selling prices of our iodine and iodine derivatives, as well as the increase in sales volume of our iodine derivatives.

The decreases in sales volume of iodine and cefpodoxime dispersible tablets were primaily due to the outbreak of COVID-19 and medical institutions in the PRC limiting the number of outpatients, leading to a significant drop of number of outpatients with fever, colds, and coughs. As a result, the use of iodine and antibiotics had dropped sharply.

On the other hand, the increase in our average selling prices of our iodine and iodine derivatives was primarily due to the increase in average purchase cost of iodine from Chile, i.e. one of the major iodine export countries in the world. The market price of iodine has been increasing since 2019, In 2020, the major suppliers had reduced their production scale in order to limit the amount of iodine in the market. Hence, the market price of iodine has maintained at a relative high level. The increase in sales volume of our iodine derivatives was primarily due to the increasing demand for iodine derivatives from our existing customers in the downstream industries, especially in the contrast agent industry, which may use potassium iodate to manufacture contrast medium in image diagnosis technology. We had signed annual sub-processing contracts with downstream image diagnosis industry customers to gain market share.

The table below sets forth our total sales in terms of geographical locations of our customers during the year ended 31 December 2020:

Total revenue by geographical locations

	For the year ended 31 December			
	2020		2019	
	RMB'000	**% of total revenue**	RMB'000	% of total revenue
PRC	**1,631,984**	**77.6%**	1,530,269	77.8%
Europe	**194,132**	**9.2%**	151,228	7.7%
Vietnam	**115,181**	**5.5%**	133,163	6.8%
Other countries in Asia (excluding the PRC and Vietnam)	**78,487**	**3.7%**	78,521	4.0%
Others	**84,098**	**4.0%**	72,874	3.7%
Total	**2,103,882**	**100.0%**	1,966,055	100.0%

Our revenue derived from the PRC contributed approximately 77.8% and 77.6% for the years ended 31 December 2019 and 2020, respectively. Given that the revenue derived from the PRC constitutes a substantial portion of our total revenue, the fluctuations in revenue of sales in the PRC for our business segments of polyurethane materials, fine chemicals and animal nutrition chemicals were in line with the fluctuations in the overall revenue of each of these segments.

Our revenue derived from Europe increased from approximately RMB151.2 million for the year ended 31 December 2019 to approximately RMB194.1 million for the year ended 31 December 2020, primarily due to the increase in sales of our animal nutrition chemicals to our existing customers as well as new customers, especially in Russia, France, Spain and Belarus after our increase in production capacity.

Our revenue derived from Asia (excluding the PRC and Vietnam) maintained at a similar level from approximately RMB78.5 million for the year ended 31 December 2019 to RMB78.5 million for the year ended 31 December 2020, respectively, primarily resulted from the net effect of the (i) decrease in revenue from sales of polyurethane materials and fine chemicals due to the outbreak of COVID-19 as mentioned above; and (ii) increase in revenue from sales of animal nutrition chemical due to sales to new customers.

Our revenue derived from Vietnam decreased from approximately RMB133.2 million for the year ended 31 December 2019 to approximately RMB115.2 million for the year ended 31 December 2020, primarily resulted from the decrease in revenue from sales of polyurethane materials due to the outbreak of COVID-19 as mentioned above.

Cost of sales

Our cost of sales comprises mainly cost of raw materials and inventories, staff costs, manufacturing overheads, depreciation and others. Cost of raw materials and inventories is our main cost of sales. Staff costs mainly comprise salaries, wages and social insurance costs for those who are directly involved in the production and the management team of the production plants.

Our cost of raw materials and inventories increased from approximately RMB1,626.9 million for the year ended 31 December 2019 to approximately RMB1,729.5 million for the year ended 31 December 2020. The increase in our cost of raw materials and inventory was driven by the increase in cost of sales, consisting of cost of raw materials and inventories incurred in animal nutrition chemical segment and polyurethane materials segment as a result of increasing sales volume of the products, offset by the decrease in cost of sales, consisting of cost of raw materials and inventories in fine chemicals segment, which was in line with the decrease in revenue in the respective segment.

Gross profit and gross profit margin

The table below sets forth a breakdown of gross profit and gross profit margin by business segments during the year ended 31 December 2020:

Total gross profit by business segments

	For the year ended 31 December			
	2020		2019	
	Gross profit		Gross profit	
	RMB'000	**margin %**	RMB'000	margin %
Polyurethane materials	**86,298**	**12.3%**	71,948	11.0%
Animal nutrition chemicals	**124,414**	**16.4%**	89,493	14.8%
Fine chemicals	**17,074**	**8.0%**	22,906	8.9%
Pharmaceutical products and intermediates	**44,360**	**10.5%**	58,928	13.4%
Others	**1,124**	**11.5%**	2,428	18.9%
Total	**273,270**	**13.0%**	245,703	12.5%

Our gross profit increased from approximately RMB245.7 million for the year ended 31 December 2019 to approximately RMB273.3 million for the year ended 31 December 2020. Our overall gross profit margin increased from 12.5% for the year ended 31 December 2019 to approximately 13.0% for the year ended 31 December 2020, which was mainly due to the increase in gross profit and gross profit margin derived from (i) our animal nutrition chemicals segment, which generated the highest gross profit margin among all segments in both years, as a result of our increasing bargaining power on purchase of raw materials and the benefit from economy of scale after technical enhancement to increase our production capacity; (ii) polymeric MDI, which resulted from a drastic increase in market price of polymeric MDI from July 2020 to October 2020 due to the unstable supply from upstream suppliers and our successful procurement strategy; and (iii) iodine derivatives, as we had provided more sub-processing services of potassium iodate and calcium iodate and led to lower revenue and cost of sales amounts but higher gross profit margin, offset by the decrease in gross profit and gross profit margin of other polyurethane materials products in the polyurethane materials segment, fine chemicals segment, iodine and cefpodoxime dispersible tablets due to the outbreak of COVID-19 as mentioned above.

Other income

Our other income primarily comprises gross rental income, one-off and unconditional subsidies from the relevant government authority in relation to the Group's contribution in the local district and subsidy in relation to the COVID-19 and bank interest income. It increased from approximately RMB5.9 million for the year ended 31 December 2019 to RMB7.6 million for the year ended 31 December 2020, respectively. The increase in our other income was mainly due to the increase in bank interest income from approximately RMB0.4 million to approximately RMB3.3 million derived from increasing average restricted bank deposits and bank balances during the year, offset by the decrease in government grant received by our Tai'an production plant from approximately RMB3.1 million to approximately RMB2.5 million.

Other gains and losses

Our other gains and losses primarily comprise (i) net exchange gains or losses which primarily arose from appreciation or depreciation of US$ against RMB as the functional currency of our subsidiaries in the PRC is RMB while their export sale to customers and purchase from overseas suppliers were mainly settled in US$; (ii) losses on disposals of plant and equipment; and (iii) net gain arising on fair value changes on derivative financial instruments. Our Group recorded net other gains of approximately RMB6.9 million for the year ended 31 December 2019 and net other losses of approximately RMB16.7 million for the year ended 31 December 2020, respectively. Such increase in loss in our net other gains and losses was mainly because of (i) a net exchange gain of approximately RMB6.4 million recorded for the year ended 31 December 2019 whereas a net exchange loss of approximately RMB15.7 million recorded for the year ended 31 December 2020, as a result of the depreciation of US$ against RMB during the year ended 31 December 2020; and (ii) losses on disposals of plant and equipment of approximately RMB3.5 million was derived from our Tai'an production plant, offset by an increase in gain on fair value changes on derivative financial instruments amounting to approximately RMB2.0 million, which was mainly related to commodity derivative contracts such as crude oil derivative contracts and foreign exchange rate future contracts.

Selling and distribution expenses

Our selling and distribution expenses primarily comprise transportation costs, staff remuneration for our sales and marketing team, port charges, storage costs, material costs for export and packaging materials and insurance costs.

Our selling and distribution expenses increased from approximately RMB89.7 million for the year ended 31 December 2019 to approximately RMB117.2 million for the year ended 31 December 2020. The increase in our selling and distribution expenses was primarily due to increase in both domestic and international logistic costs (including transportation, port charges, storage and shipment costs) under the COVID-19 pandemic, while in the meantime our sales volume of animal nutrition products, especially choline chloride, and polymeric MDI has also increased during the year.

Administrative expenses

Administrative expenses primarily comprise staff costs including salary, social insurance costs and provident funds for our staff (other than the staff who are directly involved in the production, the management team of the production plants and the sales and marketing team), entertainment expenses, travelling expenses, rent, depreciation and amortisation of leasehold improvements, office equipment and motor vehicle, safety costs, office expenses, repair expenses, and environmental protection costs in relation to implementation of safety and environmental protection measures and others.

Our administrative expenses slightly increased from approximately RMB74.6 million for the year ended 31 December 2019 to approximately RMB83.0 million for the year ended 31 December 2020. The increase in our administrative expenses was primarily due to increases in (i) accrued audit fees and other professional service fees subsequent to the successful listing (the "**Listing**") of the Shares on the Main Board of the Stock Exchange; and (ii) increase in entertainment expenses derived from our Tai'an production plant due to the increasing social events with existing and potential customers in order to maintain a good business relationship, partially offset by the decrease in travelling expenses due to the travel restriction and other control measures imposed after the outbreak of COVID-19.

Research and development expenses

Research and development expenses primarily comprise raw materials consumed for conducting research and development activities, staff costs and social insurance costs for our research and development personnel, electricity expenses, depreciation of our research center, hardware supplies and transportation cost of raw materials for conducting research and development.

Research and development expenses comprise all costs that are directly attributable to our research and development activities. Because of the nature of our research and development activities which mainly aimed to develop production equipment and method for improving our own production efficiency and it is difficult to assess the probable future economic benefits in research phase of a project, the criteria for recognition of such costs as an asset are not met. As such, our research and development costs are generally recognised as expenses in the period in which they are incurred.

Our research and development expenses increased from approximately RMB34.7 million for the year ended 31 December 2019 to approximately RMB43.3 million for the year ended 31 December 2020. The increase in our research and development expenses was primarily due to an increase in cost of raw materials of approximately RMB7.3 million because of the increase in cost of raw materials used for technological enhancement of (i) choline chloride of approximately RMB3.1 million due to the increasing trials for adjustment of production scale; (ii) two iodine derivatives products, namely potassium iodate and calcium iodate, of approximately RMB2.4 million, whereas there was only one iodine derivatives product which underwent technological enhancement in the corresponding period in last year; and (iii) rumen protected choline of approximately RMB2.1 million, which is a new product derived from choline chloride and nutrient for cows. During the year ended 31 December 2019, we focused more on system upgrade to expand our production volume and hence less materials were consumed.

Listing expenses

We incurred listing expenses of approximately RMB11.0 million and nil for the years ended 31 December 2019 and 2020, respectively.

Finance costs

Finance costs represent interest on bank and other borrowings and loans from a related company, discounted bills and lease liabilities.

Our finance costs increased from approximately RMB16.7 million for the year ended 31 December 2019 to approximately RMB26.3 million for the year ended 31 December 2020. The increase in our finance costs was primarily due to (i) an increase in the interest on our bank and other borrowings and loans from a related company from approximately RMB14.2 million for the year ended 31 December 2019 to approximately RMB22.1 million for the year ended 31 December 2020 as a result of the increase in the interest-bearing bank and other borrowings and loans from a related company from approximately RMB501.5 million as at year ended 31 December 2019 to approximately RMB562.9 million as at 31 December 2020; and (ii) an increase in the interest on our discounted bills from approximately RMB2.2 million for the year ended 31 December 2019 to approximately RMB3.7 million for the year ended 31 December 2020 resulting from increase in discounting of the bank issued bill receivables to banks during the year ended 31 December 2020, and the carrying amount of bill receivables were the same as the carrying amounts of associated liabilities, i.e. borrowings.

Income tax expenses

Our income tax expenses decreased from approximately RMB2.7 million for the year ended 31 December 2019 to an income tax credit of approximately RMB1.5 million for the year ended 31 December 2020. The decrease in our income tax expenses was primarily due to the decreases in (i) current tax from approximately RMB2.9 million for the year ended 31 December 2019 to approximately RMB0.9 million for the year ended 31 December 2020, which was in line with our decrease in profit before taxation; and (ii) deferred tax from approximately RMB0.8 million for the year ended 31 December 2019 to a deferred tax credit of approximately RMB2.4 million for the year ended 31 December 2020 derived from tax losses previously not recognised.

Our effective tax rate was approximately 8.6% for the year ended 31 December 2019. Since the Group was loss-making during 2020, no effective tax rate was calculated.

(Loss) profit for the year

As a result of the foregoing, we recorded a loss for the year of approximately RMB5.2 million for the year ended 31 December 2020, comparing to a profit for the year of approximately RMB29.1 million for the year ended 31 December 2019. The adjusted (loss) profit for the year (excluding listing expenses) was profit of approximately RMB40.1 million for the year ended 31 December 2019 and loss of approximately RMB5.2 million for the year ended 31 December 2020, as a combined result of the above fluctuations.

PROSPECTS

The Group is establishing a new production plant in the western region from our existing Tai'an production plant at the Tai'an Daiyue Chemical Industrial Park (泰安岱岳化工產業園) as part of our expansion plan. The new production plant is expected to consist of certain production facilities for (i) the production of trimethylamine, which is the key raw material for the production of choline chloride and betaine, and (ii) the construction of a pilot plant for manufacturing various pharmaceutical intermediates, including methyl iodide, iodopropynyl butyl carbamate ("**IPBC**") and moxifloxacin side chain. We believe that our expansion to produce trimethylamine at the new production plant will enable us to capitalise on the market consolidation opportunities brought about by the challenging market conditions and absorbing the market share from other competitors. The establishment of pilot plant for manufacturing various pharmaceutical intermediates enables the Group to utilise a small-scale production system to practically test and validate the production technologies of our new pharmaceutical intermediate products which were developed by our research and development team, before scaling up to a full-scale production.

Upon the outbreak of the COVID-19 since the latter half of January 2020, there had been a significant negative impact on the global and the PRC's economy which had had/will continue to have an adverse effect on our business. Especially after the global outbreak of COVID-19 since the second quarter in 2020, the demands of our animal nutrition chemicals products in the Europe and the America may be further reduced in 2021. Besides, the international relations between the PRC and the US after the inauguration of new US President is unpredictable. How the Trade War goes may further affect our current sales market in the western countries.

In the opinion of the Board, the impact of the COVID-19 outbreak and Trade War to the Group is still uncertain up to the date of this announcement. Management will remain alert to the development of the pandemic and take measures as appropriate.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders of the Company ("**Shareholder(s)**") through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, including bank and other borrowings, and equity attributable to owners of the Company, comprising issued capital and reserves. The management of the Group reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issuance of debts and repayment of existing borrowings. The Group's overall strategy remained unchanged throughout the year.

During the year, the Group's working capital was financed by both internal resources and borrowings.

As at 31 December 2020, the Group's total assets and bank balances and cash amounted to approximately RMB1,021.7 million (2019: RMB855.2 million) and RMB61.9 million (2019: RMB35.7 million), respectively. The bank balances and cash were mainly denominated in RMB and US$.

As at 31 December 2020, the borrowings (including loans from a related company) were approximately RMB562.9 million (2019: RMB501.5 million). As at 31 December 2020, borrowings amounting to approximately RMB542.9 million (2019: RMB454.9 million) are carried at fixed interest rates ranging from 0% to 8.6% (2019: from 3.0% to 8.6%) per annum and repayable from 2021 to 2050 (2019: from 2020 to 2022), borrowings amounting to approximately RMB20.0 million (2019: RMB46.6 million) are carried at variable interest rates ranging from 4.7% to 5.7% (2019: from 4.7% to 7.8%) per annum and repayable in 2021 (2019: repayable in 2020).

USE OF PROCEEDS FROM GLOBAL OFFERING

On 21 January 2020 (the "**Listing Date**"), the Company issued 250,000,000 Shares at an offer price of HK$0.51 per Share of a par value of HK$0.01 each on the Main Board of the Stock Exchange by global offering (the "**Global Offering**") upon our successful Listing.

The net proceeds from the Global Offering (after deducting the underwriting fees, commissions and Listing-related expenses in connection with the Global Offering) amounted to approximately HK$65.9 million. The net proceeds will be applied in the following manner:

(i) approximately 17.2%, or HK$11.3 million, will be used on the initial establishment of the new production plant to be established at the western region from our existing Tai'an production plant (the "**New Production Plant**"), which will consist of production facilities for the production of trimethylamine and a pilot plant for manufacturing pharmaceutical intermediates, respectively;

(ii) approximately 60.4%, or HK$39.8 million, will be used to construct production facilities at the New Production Plant for manufacturing trimethylamine, which is the principal raw material used to produce choline chloride and betaine;

(iii) approximately 10.2%, or HK$6.7 million, will be used on the construction of a pilot plant at the New Production Plant for small batch production of various types of pharmaceutical intermediates;

(iv) approximately 2.2% of HK$1.5 million, will be used on the research and development process of our new pharmaceutical product, moxifloxacin hydrochloride tablets, by which we plan to engage a pharmaceutical company, which is an independent third party to the Group, to conduct clinical trials on moxifloxacin hydrochloride tablets including preliminary and formal bioequivalence testings, raw materials purchase, sample preparation and other miscellaneous costs;

(v) approximately 0.8%, or HK$0.5 million, will be used on purchasing hardware and software for upgrading our existing financial and accounting management system, which will support the operation of our current office automation system; and

(vi) approximately 9.2%, or HK$6.1 million, will be used as working capital and other general corporate purposes.

Since the Listing Date and up to 31 December 2020, the net proceeds from the Listing had been applied as follows:

Business objective as stated in the Prospectus	Percentage of total net proceeds	Planned use of net proceeds HK$'million	Planned use of net proceeds RMB'million	Actual use of net proceeds during the period from the Listing Date to 31 December 2020 RMB'million	Proceeds unused as at 31 December 2020 RMB'million	Planned timeline as stated in the Prospectus	Expected timeline
Initial establishment of the New Production Plant	17.2%	11.3	10.1	3.9	6.2	Complete in the second half of 2020	Complete in the second half of 2021
Construction of production facilities at the New Production Plant for the production of trimethylamine	60.4%	39.8	35.4	1.5	33.9	Complete in the second half of 2021	Complete in the first half of 2022
Construction of pilot plant at the New Production Plant for the production of pharmaceutical intermediates	10.2%	6.7	6.0	4.6	1.4	Complete in the second half of 2021	Complete in the second half of 2021
Research and development on moxifloxacin hydrochloride tablets	2.2%	1.5	1.3	0.0	1.3	Complete in the second half of 2020	Complete in the first half of 2022
Upgrade of the financial and accounting management system	0.8%	0.5	0.4	0.0	0.4	Complete in the second half of 2020	Complete in the second half of 2021
General working capital	9.2%	6.1	5.4	5.4	0.0	N/A	N/A
Total	100.0%	65.9	58.6	15.4	43.2		

As at the date of this announcement, the Group had entered into several construction contracts with constructors regarding the establishment of the New Production Plant and the construction works had been kicked-off during the year ended 31 December 2020 (details of the Group's capital commitment disclosed in section headed "Capital Commitment" below).

The Board considers that the execution of the Group's expansion plans of establishment of the New Production Plant had been/will be impeded by the postponed resumption of normal operation of constructors with the impact of the recent outbreak of the COVID-19. Such postponement of the basic infrastructure construction schedule also leads to delay in use of proceeds on purchase and installation of ancillary facilities, utilities system and major machinery and equipment.

Besides, as announced by the National Joint Office of Centralized Procurement of Drugs (全國藥品集中採購聯合辦公室), one of our competitors won the bid of moxifloxacin hydrochloride tablets in several provinces at a unit price lower than our estimated cost of production, i.e. this competitor will supply moxifloxacin hydrochloride tablets at the bid price to the hospitals in these provinces. In order to compete with this competitor, the management considers to study and develop the pharmaceutical intermediates used in production of moxifloxacin hydrochloride tablets, which is expected to be developed in our pilot plant at the New Production Plant for the production of pharmaceutical intermediates. As a result, use of proceeds on development on moxifloxacin hydrochloride tablets was delayed. The management consider that the research and development on moxifloxacin hydrochloride tablets will be completed after the construction of our pilot plant for the production of pharmaceutical intermediates. As at 31 December 2020, contracts with a total amount of approximately RMB4.9 million were signed in relation to the purchase of machinery and equipment for the production of the pharmaceutical intermediates used in production of moxifloxacin hydrochloride tablets, which will be developed in our pilot plant at the New Production Plant in the future.

The unexpected disruption as a result of the outbreak of the COVID-19 not only increases the uncertainty on the timing of availability of production facilities and causes the earmarked fund for payments to be idle, but also increases the overall risk profile of the project. The Board will remain alert to the development of the pandemic and maintain an appropriate pace of the development plans based on the latest situation.

Save as disclosed above, the Directors are not aware of any material change or delay in the planned use of proceeds. As at the date of this announcement, there were no changes of business plan from that disclosed in the Prospectus. The unutilized portion of the net proceeds of RMB43.2 million were placed in licensed bank in the PRC.

PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including market risk (currency risk and interest rate risk), credit risk and liquidity risk.

Currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group has currency exposure as income earned and expenses incurred in the PRC were denominated in RMB.

RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the Renminbi. The appreciation or devaluation of Renminbi against US$ may have impact on the operating results of the Group.

The Group's financial assets and liabilities are denominated in foreign currencies of respective group entities which are exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest Rate Risk

The Group is exposed to fair value interest rate risk for certain financial assets, financial liabilities and lease liabilities.

The Group is also exposed to cash flow interest rate risk for its interest bearing financial liabilities and certain of its interest bearing financial assets.

The Group currently does not have an interest rate hedging policy. The management monitors interest rate risk exposure and will consider hedging significant interest rate exposure should the need arises. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Credit Risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position at the end of each reporting period.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group currently performs impairment assessment under expected credit loss model upon the application of IFRS 9 on trade receivables. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on bill receivables at fair value through other comprehensive income are limited as those bills are issued by banks with high credit ratings assigned by international credit-rating agencies and no history of default in the past, thus no loss allowance provision for bills was recognised during the year.

For other receivables, rental deposits and finance lease receivable, Directors make periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and also available and supportive forward looking information. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balances of other receivable, rental deposits and finance lease receivable.

The Group has concentration of credit risk on bank balances and restricted bank deposits which are deposited with several banks. However, the credit risk on bank balances and restricted bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies, and expected credit loss is insignificant.

The Group has no significant concentration of credit risk on trade and bill receivables and other receivables, with exposure spread over a large number of counterparties and customers.

Liquidity Risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the year. The Group strives to reduce credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, 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 from time to time.

FOREIGN EXCHANGE EXPOSURE

The Group's foreign currency transactions are mainly denominated in RMB and US$. The Group has currency exposure as certain income and expenses incurred in the PRC were denominated in RMB and certain overseas sales income were denominated in US$ and other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in RMB. During the year, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

CAPITAL EXPENDITURES

During the year, the Group's capital expenditures consisted of additions to property, plant and equipment and construction in progress in our operations amounting to approximately RMB93.2 million (2019: RMB60.7 million).

CAPITAL COMMITMENT

As at 31 December 2020, the Group had a capital commitment of approximately RMB34.1 million (2019: RMB4.2 million). The capital commitments primarily related to the establishment of the New Production Plant and purchase of machinery and equipment for existing usage. We intend to fund these commitments with cash generated from our operations, bank and other borrowings and proceeds from the Global Offering.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: Nil).

DIVIDEND

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2020 (2019: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had a total of 890 (2019: 886) employees, including the Directors. Total staff costs (including Directors' remuneration) was approximately RMB82.4 million (2019: RMB71.0 million) for the year ended 31 December 2020.

Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

On top of the basic salaries, bonuses may be paid by reference to the Group's performance as well as the individual's performance. Other major staff benefits include contributions to defined contribution retirement benefit plan, Hong Kong's Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme adopted by the Company on 16 December 2019 where options to subscribe for Shares may be granted to the Directors and employees of the Group.

SIGNIFICANT INVESTMENTS

During the year ended 31 December 2020, the Group did not hold any significant investment or capital assets (2019: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL EXPENDITURES

Save as disclosed in the Prospectus and in the section headed "Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures" below, the Group did not have any plans for material investments or capital assets in the coming year.

The Group will finance the future acquisitions through internally generated funds and other fund raising activities, including but not limited to issue of new debts or equity instruments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group has not acquired nor disposed of any of its subsidiaries during the year ended 31 December 2020.

EVENTS AFTER REPORTING PERIOD

On 7 February 2021, (i) Tai'an Taiying Financial Construction Equity Investment Fund Partnership (Limited Partnership)* (泰安市泰鷹財建股權投資基金合夥企業 (有限合夥)) ("**TTFC**"), an independent third party to the Group and a private equity fund formed in the PRC; (ii) Taian Havay Group Co.* (泰安漢威集團有限公司) ("**Havay Group**") and Nanjing Goldenhighway International Supply Chain Management Company Limited* (南京金海威國際供應鏈管理有限公司) ("**GHW International SCM**"), two wholly-owned subsidiaries of the Group; and (iii) Mr. Yin Yanbin ("**Mr. Yin**"), chairman of the Board and chief executive officer of the Company, entered into a subscription agreement and a supplemental agreement (collectively referred to as the "**Agreements**"). Pursuant to the Agreements, Havay Group agreed to increase its registered capital from RMB100 million to approximately RMB117.6 million, and TTFC agreed to subscribe the additional equity interests (the "**Subscribed Equity Interests**") with a total subscription amount of RMB150 million (the "**Subscription Amount**"). TTFC is entitled to a fixed return of 7.2% per annum on the outstanding Subscription Amount, payable semi-annually in arrears, for five years. GHW International SCM agreed to repurchase 30%, 40%, and 30%, respectively, of the Subscribed Equity Interests at each of the third to fifth anniversaries of the issue date of the Subscribed Equity Interests at a price equal to the corresponding proportion of the Subscription Amount, plus any return not paid on the respective repurchase date. Besides, GHW International SCM is entitled to repurchase any portion of Subscribed Equity Interests at any time at the same price calculated based on the formula above. Other than as disclosed above, TTFC is not entitled to other returns. In the opinion of the Directors, the above arrangement is in substance a loan arrangement. As at the date of this announcement, approximately RMB86.4 million was received from TTFC.

As of the date of this announcement, business operations of the Group have been impacted by the outbreak of the COVID-19, which has endangered the health of many people. The outbreak of COVID-19 had been a significant negative impact brought to the global and the PRC's economy which may have an adverse effect on our business.

In the opinion of the Directors, the overall impact of the COVID-19 to the Group is uncertain up to the date of this announcement. Management will remain alert to the development of the pandemic and take measures as appropriate.

INTEREST OF THE COMPLICANCE ADVISER

As confirmed by the Company's compliance adviser, Fortune Financial Capital Limited (the **"Compliance Adviser"**), save for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 19 December 2019, none of the Compliance Adviser or its directors, employees or close associates (as defined under the Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company.

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company established the audit committee (the **"Audit Committee"**) with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process, risk management and internal controls systems of the Group. The Audit Committee comprises three Independent Non-executive Directors, namely Ms. Zheng Qing (chairlady), Mr. Sun Hongbin and Mr. Wang Guangji.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and risk management and financial reporting matters, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2020 with the management and the Company's external auditor, Deloitte Touche Tohmatsu.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the annual results announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by

Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the annual results announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company was listed on the Stock Exchange on 21 January 2020 (the **"Listing Date"**). None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date and up to the date of this announcement.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the Directors had interests in business which competes or may compete with the Group's business.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct regarding the dealings in securities of the Company by the Directors with effect from 21 January 2020. Having made specific enquiry of all Directors, each Director has confirmed that he/she has complied with the required standard set out in the Model Code during the year ended 31 December 2020.

CORPORATE GOVERNANCE PRACTICES

The Company was listed on the Stock Exchange on 21 January 2020. The Company has adopted the code provisions (the **"Code Provisions"**) as set out in the Corporate Governance Code (the **"CG Code"**) in Appendix 14 to the Listing Rules with effect from 21 January 2020. During the year ended 31 December 2020, the Company has complied with all the Code Provisions of the CG Code, save and except for the code provision A.2.1. Details of the deviation from the Code Provision A.2.1 are explained in the section "Chairman and Chief Executive Officer" below. The Board is committed to complying with the principles of the CG Code contained in the Appendix 14 to the Listing Rules. The Company is committed to achieving and maintaining high standards of corporate governance consistent with the needs and requirements of its business and the Shareholders. The corporate governance principles of the Company emphasise a quality board, sound internal controls, and transparency and accountability to all the Shareholders. The Board will continue to review and enhance its corporate governance practice to ensure compliance with the CG Code, and make necessary changes as appropriate.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under Code Provision A.2.1 of the CG Code, the roles of the Chairman of the Board and chief executive officer of the Company should be separated and should not be performed by the same individual. During the year ended 31 December 2020, the Company has not separated the roles of the Chairman of the Board and the Chief Executive Officer of the Company. Mr. Yin Yanbin was the Chairman of the Board and also the Chief Executive Officer of the Company responsible for overseeing the operations of the Group during year. The Board believes that vesting the roles of both the Chairman of the Board and the Chief Executive Officer of the Company in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies. The Board shall nevertheless review the structure from time to time to ensure appropriate move is being taken should suitable circumstances arise.

ANNUAL GENERAL MEETING

The annual general meeting (**"AGM"**) of the Company will be held on Wednesday, 26 May 2021, the notice of which shall be sent to the Shareholders in accordance with the articles of association of the Company, the Listing Rules and other applicable laws and regulations.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the Shareholders entitled to attend and vote at the AGM scheduled to be held on Wednesday, 26 May 2021, the register of members of the Company will be closed from Friday, 21 May 2021 to Wednesday, 26 May 2021, both days inclusive, during which period no transfer of Shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 20 May 2021 (Hong Kong time).

COMMUNICATION WITH SHAREHOLDERS

The Board recognised the importance of maintaining a clear, timely and effective communication with the Shareholders and investors of the Company. The Board also recognised that effective communication with the Company's investors is critical in establishing investor confidence and to attract new investors. Therefore, the Shareholders' Communication Policy of the Company is committed to maintaining a high degree of transparency to ensure the Shareholders and the investors of the Company will receive accurate, clear, comprehensive and timely information of the Group through the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate communications on the website of the Company.

PUBLICATION OF RESULTS ANNOUNCEMENT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company at www.goldenhighway.com.

By order of the Board
GHW International
Yin Yanbin
Chairman and Chief Executive Officer

Hong Kong, 26 March 2021

As at the date of this announcement, the Board comprises Mr. Yin Yanbin, Mr. Zhuang Zhaohui, Mr. Chen Zhaohui, Mr. Zhou Chunnian, Mr. Chen Hua and Mr. Sun Guibin as executive Directors, and Mr. Sun Hongbin, Mr. Wang Guangji and Ms. Zheng Qing as independent non-executive Directors.