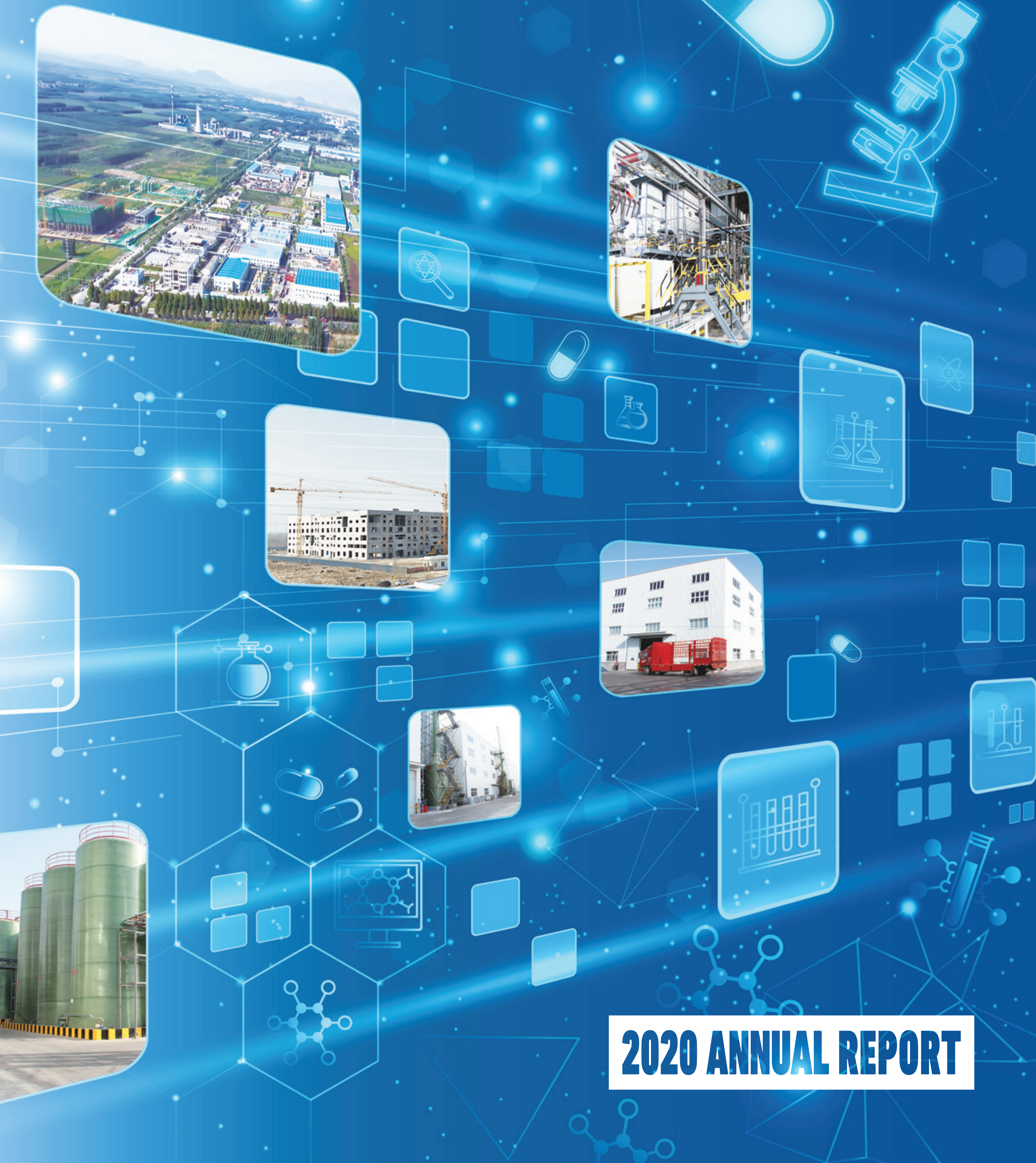
GHW International

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 9933



2020 ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Yin Yanbin (Chairman and Chief Executive Officer)
Zhuang Zhaohui
Chen Zhaohui
Zhou Chunnian
Chen Hua
Sun Guibin

Independent Non-executive Directors:

Sun Hongbin
Wang Guangji
Zheng Qing

AUDIT COMMITTEE

Zheng Qing (Chairlady)
Wang Guangji
Sun Hongbin

REMUNERATION COMMITTEE

Zheng Qing (Chairlady)
Zhuang Zhaohui
Sun Hongbin

NOMINATION COMMITTEE

Sun Guibin (Chairman)
Zheng Qing
Sun Hongbin

RISK MANAGEMENT COMMITTEE

Zhou Chunnian (Chairman)
Chen Hua
Sun Guibin

AUTHORISED REPRESENTATIVES

Yin Yanbin
Wu Wing Hou

COMPANY SECRETARY

Wu Wing Hou

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

6th Building
Xincheng Science Park
No. 69 Aoti Street
Nanjing
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 15C, 15/F
235 Wing Lok Street Trade Centre
235 Wing Lok Street
Sheung Wan
Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

CORPORATE INFORMATION

LEGAL ADVISER

Loeb & Loeb LLP

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Shanghai Pudong Development Bank (Nanjing Branch)
Bank of Nanjing
Industrial and Commercial Bank of China
(Nanjing City Xuanwu Sub-branch)
Bank of Communications
(Tai'an City Xiangyang Sub-branch)

AUDITORS

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
35th Floor, One Pacific Place
88 Queensway
Hong Kong

COMPLIANCE ADVISER

Fortune Financial Capital Limited

COMPANY'S WEBSITE

www.goldenhighway.com

STOCK CODE

9933

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2020 **RMB'000**	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	**2,103,882**	1,966,055	2,152,946	2,179,049	1,606,829
Gross profit	**273,270**	245,703	309,562	317,611	164,966
(Loss) profit before taxation	**(6,642)**	31,846	91,252	94,062	21,211
Taxation	**1,467**	(2,739)	(16,995)	(14,631)	(454)
(Loss) profit for the year	**(5,175)**	29,107	74,257	79,431	20,757
Adjusted (loss) profit for the year (excluding listing expenses)	**(5,175)**	40,101	81,715	85,293	14,940

ASSET AND LIABILITIES

	As at 31 December				
	2020 **RMB'000**	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Total assets	**1,021,749**	855,239	648,758	592,837	516,566
Total liabilities	**(816,254)**	(740,677)	(559,764)	(500,372)	(452,009)
Net assets	**205,495**	114,562	88,994	92,465	64,557

The summary of the consolidated results of GHW International (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for each of the year ended 31 December 2016, 2017, 2018, 2019 and 2020 and the consolidated assets and liabilities of the Group as at 31 December 2016, 2017, 2018, 2019 and 2020 have been extracted from this annual report, the annual report for the year ended 31 December 2019 or the Company's prospectus dated 31 December 2019 (the "**Prospectus**").

The summary above does not form part of the audited consolidated financial statements.

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, I am pleased to present to you the annual results and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

FINANCIAL RESULTS

During the financial year under review, 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 our animal nutrition chemicals segment as a result of the increase in our production capacity since the 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.

Upon completion of the production facilities upgrade and technological enhancement on the production processes, our production capacity for choline chloride, being one of the major self-manufactured products of our Group, and betaine at our Tai'an production plant has reached approximately 150,000 tonnes and 18,000 tonnes, respectively, in the second half of 2019. During the financial year under review, we had increased our market share for choline chloride and betaine through our marketing efforts over the past few years. Benefiting from the economy of scale, we maintained our competitiveness in the market and were able to increase our choline chloride market share with an increasing gross profit margin under the decreasing average market price trend over the year. However, due to the outbreak of COVID-19 in the western countries since the second quarter of 2020, the export sales volume of our choline chloride was fluctuated. Nevertheless, we are confident to expand our global market shares in 2021 as we have succeeded in the domestic market.

CHAIRMAN'S STATEMENT

Our sales volume of iodine derivatives was also increased during the financial year under review, which was due to the increasing demand for iodine derivatives from our 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 the market share. Besides, the average selling price of iodine derivatives had been increasing during the financial year under review due to the increase in import price of iodine from Chile, i.e., one of the major iodine export countries in the world.

Regarding the sales of polymeric MDI, despite the decreasing sales volume in the first half of 2020 as a result of the outbreak of COVID-19, the significant recovery of economy in the People's Republic of China (the "**PRC**") in the second half of 2020, together with the suspension of production of a major polymeric MDI manufacturer in the Europe in July 2020 due to the outbreak of COVID-19 pandemic, led to a drastic increase in average market price of polymeric MDI from July 2020 to October 2020. Our stable supply of polymeric MDI attracted more downstream customers and resulted in an increase in sales volume in the second half of 2020. We were also able to sell polymeric MDI at a higher profit margin compared to last year resulted from our procurement strategy.

However, the COVID-19 outbreak still brought a significant negative impact to the demand of our third-party manufactured trading products due to the compulsory temporary shutdown of our downstream customers' factories in the first half of 2020. In addition, due to the continuous outbreaks of COVID-19 in Asia, Europe, the United States (the "**US**") and other western countries, our export sales volume of these products also decreased. As a result, trading activities were highly affected and the sales volume of our other third-party manufactured trading products had decreased.

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), resulted in a basic loss per share of the Company (the "**Shares(s)**") for the year ended 31 December 2020 of RMB0.5 cents (2019: basic earnings per Share of RMB3.9 cents), representing a decrease of 112.8%. Although we had an increasing 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 United States dollar ("**US$**") against Renminbi ("**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 borrowing balance, including bank issued bill receivables discounted to banks, and loans from a related company during the year.

CHAIRMAN'S STATEMENT

BUSINESS OVERVIEW

We are an applied chemical intermediates provider in the integrated chemical services (it refers to a complete supply chain to provide customers with a full spectrum of services ranging from pre-sales consulting services, sales of chemical products to after-sales technical support) market, which primarily engages 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 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.

There had been a tough business environment during the past financial year. The outbreak of the COVID-19 had affected the worldwide economy and brought a significant impact to the supply of our raw materials, the supply and demand of our third-party manufactured trading products, the duration and the cost of transportation of these materials, the operation of our downstream customers' factories, the creditability of our trade receivables, our expansion plan in the market, our construction schedule of our new Tai'an production plant and development of new products, etc.. In addition, certain pandemic control measures had been undertaken by the PRC central government and various provincial or municipal governments including implementation of travel restrictions and extension of national holidays, which had significantly disrupted the local economy. Due to the continuous outbreaks of COVID-19 in Asia, Europe, the US and other western countries, our export sales volume is also affected. As a result, trading activities were highly affected.

Under this difficult economic condition, we are still striving to be one of the world's best and the largest applied chemical intermediates provider, especially in the field of animal nutrition and feed additives. 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 in the second half of 2019 has reached approximately 150,000 tonnes and 18,000 tonnes, respectively. We had achieved a new record of sales volume of choline chloride and betaine in the current year, with an increase in sales volume of more than 27% and 77%, respectively, compared to last year.

Regarding the polyurethane materials segment, the drop of market size in 2020 for polyurethane materials market was mainly because of the COVID-19 outbreak and the drop of cruel oil price, leading to suspension or scale down of production of our downstream customers' factories. The increasingly fierce competition in the polyurethane market placed certain level of short-term pricing pressure on the manufacturers of polyurethane materials during 2020. In addition, the unstable trade environment and the temporary decrease in demand from downstream industries where polyurethane is applied also led to the decrease in market size in 2020. During the current year, factors such as the weakening of the world economic growth momentum and the rising of trade protectionism were resisting the growth of the polyurethane materials market and aggravate the instability of the global market. However, with reference to the drastic increase in market price of polymeric MDI in the second half of 2020, we experienced that the polyurethane material suppliers are adjusting their actual production capability and pricing strategy based on the changing market demand in order to keep their production efficiency and competitive position in the market. It is expected that the polyurethane materials market will be gradually maintained an upward trend in the foreseeable future, which will be sustained by the growing demand from downstream demands such as the cold chain logistics market where polyurethane materials is used to produce thermal insulation materials for preserving perishable products such as dairy, meat and agriculture products, which are essential for human's daily dietary needs, due to the higher expectation from general public on safety and quality in terms of food transportation. Moreover, the development of free-trade zones in the PRC as sustained by the supportive policy of the PRC central government had increased the importation of fresh products which provides ample opportunities for further expansion in the cold chain logistics market in the PRC. This will further contribute to the rising demand for our polyurethane materials in the future.

CHAIRMAN'S STATEMENT

FUTURE PROSPECTS

We are 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.

The economic effect of the global outbreak of COVID-19 is still uncertain up to the date of this report. Besides, the international relations between the PRC and the US after the inauguration of new US President is unpredictable. How the trade war between the US and the PRC (the "**Trade War**") develops may further affect our current sales market in western countries. Management will remain alert to the development of the pandemic and the global economic landscape and take measures as appropriate.

APPRECIATION

The Board would like to extend its sincere thanks to the shareholders of our Company (the "**Shareholders**"), business partners and customers for their utmost support to us. We would also like to take this opportunity to thank all management members and staff for their hard work and dedication throughout the year.

Yin Yanbin
Chairman and Chief Executive Officer
26 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are an applied chemical intermediates provider in the integrated chemical services market, which primarily engages 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

<u>Polyurethane materials</u>

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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
The 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 of Hong Kong Limited (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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

(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, 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 report. 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 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). The gearing ratio of the Group, which was calculated by dividing the total external borrowings by total equity as at the end of the year and multiplied by 100%, is 279.3% (2019: 437.8%).

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 report, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 report, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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).

MANAGEMENT DISCUSSION AND ANALYSIS

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.

PLEDGE OF ASSETS

As at 31 December 2020, save as (i) restricted bank deposits of approximately RMB172.4 million (2019: RMB108.8 million); (ii) right-of-use assets and property, plant and equipment of approximately RMB46.3 million and RMB45.8 million respectively (2019: right-of-use assets and property, plant and equipment of approximately RMB17.7 million and RMB8.1 million respectively); (iii) bill receivables at fair value through other comprehensive income of approximately RMB42.8 million (2019: RMB51.3 million); (iv) bank balance and cash of approximately RMB0.7 million (2019: nil); (v) inventories of approximately RMB5.0 million (2019: nil); and (vi) trade receivables and other receivables and prepayments of approximately RMB2.8 million (2019: nil) to secure the borrowings, the Group did not pledge any other assets.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 report, approximately RMB86.4 million was received from TTFC.

As of the date of this report, 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 report. Management will remain alert to the development of the pandemic and take measures as appropriate.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yin Yanbin, aged 53, is the founder of our Group, our executive Director, the chairman of our Board, and the chief executive officer of our Company. Mr. Yin is also a director of each of GOHI Int'L Limited ("**GOHI Int'L**"), GHW Holdings Limited ("**GHW Holdings**"), 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**"), Nanjing Goldenhighway Chemicals Co., Ltd.* (南京金海威化工實業有限公司) ("**GHW Chemicals**") (renamed as "Nanjing Goldenhighway New Materials Co., Ltd."*(南京金海威新材料有限公司) on 5 February 2021), Nanjing Goldenhighway Investment Co., Ltd.* (南京金海威投資有限公司) ("**GHW Investment**") (deregistered on 11 January 2021), Golden Highway International (Hong Kong) Limited ("**GHW International (HK)**"), Goldray International Enterprises Co., Limited ("**Goldray International**"), Havay Industry Inc. ("**Havay Industry**"), GHW USA LLC ("**GHW USA**"), Taian Havay Group Co., Ltd.* (泰安漢威集團有限公司) ("**Havay Group**"), Jiangsu Xinnuo Pharmaceutical Trading Co., Ltd.*(江蘇省信諾醫藥對外貿易有限公司) ("**Xinnuo Pharmaceutical**") and Xuzhou Havay Feeds Co., Ltd.* (徐州漢威飼料有限公司) ("**Havay Feeds**"), Taian Yueda Logistics Co., Ltd.* (泰安嶽達物流有限公司) ("**Taian Yueda**") and Most Victory Holdings Limited ("**Most Victory**") (incorporated on 6 January 2021 and appointed on 1 March 2021), the chairman, general manager and legal representative of GHW International SCM, the general manager and legal representative of GHW Chemicals and Xinnuo Pharmaceutical, the legal representative of GHW Investment, Havay Group and Taian Yueda, all of which are our subsidiaries. Mr. Yin is primarily responsible for strategic planning of our Group and overseeing the management and business performance, asset management, financial positions and human resources of our Group. Mr. Yin has over 21 years of experience in the applied chemical products industry. Mr. Yin received a college diploma in machinery manufacturing process and equipment from Jiangsu Radio and Television University* (江蘇廣播電視大學) in the PRC in July 1989 and further obtained a bachelor's degree in business management from China Pharmaceutical University* (中國藥科大學) in the PRC in July 2001.

Mr. Zhuang Zhaohui, aged 52, is our executive Director. He is also a member of the remuneration committee (the "**Remuneration Committee**"). Mr. Zhuang joined our Group in February 2001. Mr. Zhuang is also a director of each of GHW International SCM, Nuovomondo Chemicals Private Limited ("**Nuovomondo Chemicals**"), Havay Feeds and Nanjing Jinhan Tianxia Sports Culture Development Company Limited* (南京金漢天下體育文化發展有限公司) ("**Jinhan Tianxia**") (acquired on 1 March 2021), and legal representative of Jinhan Tianxia, all of which are our subsidiaries. Mr. Zhuang is primarily responsible for managing, supervising and coordinating the sales strategies and business operations of our Group. Mr. Zhuang has over 21 years of experience in the applied chemical products industry. Mr. Zhuang received a college diploma in foreign trade from Nanjing Audit College* (南京審計學院) (currently known as Nanjing Audit University* (南京審計大學)) in the PRC in July 1989 and further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in June 2012.

Mr. Chen Zhaohui, aged 52, is our executive Director. Mr. Chen joined our Group in July 1997. Mr. Chen is also a director of each of GHW International SCM and Nanjing Hanshang Weisou Electronic Commerce Co., Ltd.* (南京瀚商微搜電子商務有限公司) ("**Hanshang Weisou**") (appointed on 8 March 2021), a supervisor of each of GHW Investment, Xinnuo Pharmaceutical and Havay Feeds, and the chairman and legal representative of Hanshang Weisou (appointed on 8 March 2021), all of which are our subsidiaries. Mr. Chen is primarily responsible for managing the capital and finance management, administration and information technology of our Group. Mr. Chen has over 21 years of experience in the applied chemical products industry. Mr. Chen completed his secondary education, specialising in industrial business management in the PRC in July 1987.

Mr. Zhou Chunnian, aged 49, is our executive Director. He is also the chairman of the risk management committee (the "**Risk Management Committee**"). Mr. Zhou joined our Group in January 1996. Mr. Zhou is also a director of GHW International SCM, one of our subsidiaries. Mr. Zhou is also a director of GHW International SCM, one of our subsidiaries. Mr. Zhou is primarily responsible for managing, supervising and coordinating the sales and business operations as well as capital management of our Group. Mr. Zhou has over 21 years of experience in the applied chemical products industry. Mr. Zhou received a bachelor's degree in chemical processing of coal from Dalian University of Technology* (大連理工大學) in the PRC in July 1994 and further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in December 2012.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Hua, aged 48, is our executive Director. He is also a member of the Risk Management Committee. Mr. Chen joined our Group in July 1995. Mr. Chen is also a director of each of GHW International SCM and Nanjing Hanshang Weisou (resigned on 8 March 2021), both of which are our subsidiaries. Mr. Chen is primarily responsible for formulating and monitoring the implementation of sales strategies of our Group. Mr. Chen has over 21 years of experience in the applied chemical products industry. Mr. Chen received a bachelor's degree in polymer chemistry and physics studies from University of Science and Technology of China* (中國科學技術大學) in the PRC in July 1995. Mr. Chen further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in June 2012.

Mr. Sun Guibin, aged 45, is our executive Director. He is also the chairman of the nomination committee (the "**Nomination Committee**") and a member of the Risk Management committee. Mr. Sun joined our Group in March 2003. Mr. Sun is also a supervisor of GHW International SCM, one of our subsidiaries. Mr. Sun is primarily responsible for managing the daily operations of some of our subsidiaries. Mr. Sun has over 16 years of experience in the applied chemical products industry. Mr. Sun received a college diploma in finance from Jiangsu Radio and Television University* (江蘇廣播電視大學) in the PRC in July 1995 and further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in June 2012. Mr. Sun was a member of the Sixteenth National People's Congress Standing Committee of Shandong Province Tai'an City Daiyue District of the PRC. In 2017, Mr. Sun Guibin was awarded the Science and Technology Award of Daiyue District* (岱嶽區科學技術獎) issued by the People's Government of Daiyue District, Tai'an City of the PRC, in recognition of his research on the industrialisation of diethyl sulfate.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Hongbin, aged 54, is our Independent Non-executive Director. He is also a member of each of the audit committee (the "**Audit Committee**"), the Remuneration Committee and the Nomination Committee. Mr. Sun holds various positions in China Pharmaceutical University* (中國藥科大學). He is currently a professor, director of the Jiangsu Key Laboratory of Drug Discovery for Metabolic Disease* (江蘇省代謝性疾病藥物重點實驗室), and an associate director of the State Key Laboratory of Natural Medicines* (天然藥物活性組分與藥效國家重點實驗室), of China Pharmaceutical University* (中國藥科大學). Mr. Sun is also a distinguished professor under the Cheung Kong Scholars Programme (長江學者獎勵計劃) recognised by the Ministry of Education of the PRC and the associate director committee of the Division of Medicinal Chemistry, CPA. Mr. Sun is currently the director of Jiangsu Vcare Pharmatech Co., Ltd* (江蘇威凱爾醫藥科技有限公司), a company specialises in pharmaceutical research development. He was an independent director of Zhejiang Jianfeng Group Co. Ltd* (浙江尖峰集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600668) from May 2016 to November 2020. Mr. Sun graduated from the Department of Chemistry, Jilin University in the PRC in 1989 and received a doctor's degree in science from China Pharmaceutical University* (中國藥科大學) in the PRC in July 1995.

Mr. Wang Guangji, aged 67, is our Independent Non-executive Director. He is also a member of the Audit Committee. Mr. Wang is currently a director of the academic committee the China Pharmaceutical University* (中國藥科大學) and a director of Jinling Pharmaceutical Company Limited* (金陵藥業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000919), Sichuan Kelun Pharmaceutical Company Limited* (四川科倫藥業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002422) and North China Pharmaceutical Company Limited* (華北製藥股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600812). Mr. Wang obtained a bachelor's degree in pharmacy from the China Pharmaceutical University* (中國藥科大學) in January 1977 and further obtained a doctor of philosophy from the University of Otago in New Zealand in June 1995.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Zheng Qing, aged 53, is our Independent Non-executive Director. She is also the chairlady of each of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee. Ms. Zheng has over 16 years of experience in the financial management industry. Since June 2015, Ms. Zheng has been the financial controller of Nanjing region of Fullshare Holdings Limited (豐盛控股有限公司), a company listed on the Stock Exchange (stock code: 607). Since December 2016, Ms. Zheng has been an executive director of China High Speed Transmission Equipment Group Co., Ltd (中國高速傳動設備集團有限公司), a company listed on the Stock Exchange (stock code: 658). Ms. Zheng received a college diploma in economic management, majoring in foreign trade, from Nanjing Audit College* (南京審計學院) (currently known as Nanjing Audit University (南京審計大學)) in the PRC in July 1989. She completed the Economic Management courses in Nanjing University* (南京大學) in the PRC in June 1993 through self-study. She received a bachelor's degree in applied accounting from Oxford Brookes University in the United Kingdom in January 2005 through long distance learning, and further obtained a master degree in business administration from the Chinese University of Hong Kong in Hong Kong in November 2012. Ms. Zheng has been a member and a fellow of the Association of Chartered Certified Accountants since April 2002 and April 2007, respectively.

SENIOR MANAGEMENT

Mr. Wu Wing Hou, aged 33, is our chief financial officer and company secretary. Mr. Wu is primarily responsible for overseeing the overall financial position and accounting matters of our Group. Mr. Wu received a bachelor's degree in business administration, majoring in accounting and finance, from the University of Hong Kong in December 2009. Mr. Wu was admitted as a member of the Hong Kong Institute of Certified Public Accountants in September 2013.

Ms. Jiang Hong, aged 51, joined our Group as an accounting personnel of Xinnuo Pharmaceutical in March 1998. Ms. Jiang is the deputy chief financial officer of our Group and is mainly responsible for managing the financial and general operations of our Group. Ms. Jiang has over 21 years of experience in financial management and accounting. Ms. Jiang received a college diploma in industrial accounting from Nanjing Radio and Television University* (南京廣播電視大學) in the PRC in June 1990.

Mr. Diao Cheng, aged 52, joined our Group as an integrated human resources manager of Hanhe Enterprises in April 1998. Mr. Diao is the deputy chief executive officer of our Group and is mainly responsible for managing the logistics, strategic development and general business operations of our Group. Mr. Diao is also a director of each of Nanjing Tianyu Transportation Co., Ltd.* (南京天宇運輸有限公司) ("**Nanjing Tianyu**") and Hanshang Weisou (appointed on 8 March 2021), legal representative of Nanjing Tianyu and general manager of Hanshang Weisou (appointed on 8 March 2021) and Jinhan Tianxia (appointed on 1 March 2021), all of which are our subsidiaries. Mr. Diao received a college diploma in management engineering (finance management) from Nanjing University of Aeronautics and Astronautics* (南京航空航天大學) in the PRC in June 1994, a bachelor's degree in human resources management from Nanjing University of Science and Technology* (南京理工大學) in July 2005 and an Executive Master of Business Administration from Nanjing University in June 2015.

REPORT OF THE DIRECTORS

The Directors present this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

INITIAL PUBLIC OFFERING

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 April 2018. The Company listed its Shares on the Main Board of the Stock Exchange on 21 January 2020. The Company issued 250,000,000 Shares at an offer price of HK$0.51 per Share.

The listing of and the permission to deal in the Shares on the Main Board of The Stock Exchange commenced on 21 January 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 39 to the consolidated financial statements.

BUSINESS REVIEW

A fair business review of the Group as well as discussion and analysis of the Group's performance during the year and the material factors underlying its financial performance and financial position is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 5 to 8 and pages 9 to 24 respectively of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

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. The risk management policies and practices of the Group are stated in note 37 to the consolidated financial statements in this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has actively participated in sustainability and social responsibility and recognises its responsibility to protect the environment from its business activities. The Group endeavours to comply with the laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operation of the Group during the year ended 31 December 2020.

FINANCIAL RESULTS

The consolidated results of the Group for the year ended 31 December 2020 and the consolidated financial position of the Group as at that date are set out in the consolidated financial statements on pages 76 to 78 of this annual report.

DIVIDEND

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

RESERVES

Details of the movements in the reserves of the Company and of the Group during the year ended 31 December 2020 are set out in note 40 to the financial statements and in the consolidated statement of change in equity, respectively in this annual report.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution to our Shareholders was approximately RMB 79.5 million (2019: nil), as determined under IFRSs and in accordance with the Companies Law of the Cayman Islands. The amount includes the Company's share premium, capital reserve and retained profits or accumulated losses which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, if any, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 4 of this annual report. This summary does not form part of the audited financial statements for the year ended 31 December 2020.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

On 3 January 2019, for the purpose of redenomination of Shares from US dollars to Hong Kong dollars, the Company (a) 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 B**"), Commonwealth Happy Elephant Limited ("**Commonwealth Happy Elephant**"), Commonwealth GHW Limited ("**Commonwealth GHW**") and Commonwealth Feibear Limited ("**Commonwealth Feibear**"), 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.

During the year ended 31 December 2020, (i) pursuant to a written resolution of the Shareholders passed on 16 December 2019, a total of 749,000,000 Shares of HK$0.01 each were allotted and issued at par value to Commonwealth B, Commonwealth Happy Elephant, Commonwealth GHW and Commonwealth Feibear by way of capitalisation of HK$7,490,000 from the Company's capital reserve account on 21 January 2020. The respective Shares allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares; and (ii) the Company listed its Shares on the Main Board of the Stock Exchange on the Listing Date. The Company issued 250,000,000 Shares at an offer price of HK$0.51 per Share, in an aggregate gross amount of HK$127,500,000.

Save as disclosed above, there were no movements in the Company's share capital during the year ended 31 December 2020 and up to the date of this report. Details of the share capital of the Company for the year ended 31 December 2020 are set out in note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "**Articles**") and there is no restriction against such rights under the laws of the Cayman Islands.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company was listed on the Stock Exchange on 21 January 2020. None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

DONATIONS

The Group made charitable donations totaling approximately RMB200,000 (2019: RMB881,000) for the year ended 31 December 2020.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, sales to the Group's largest customer and five largest customers accounted for approximately 1.9% (2019: 2.0%) and 7.7% (2019: 7.9%) respectively of the total revenue of the Group for the year. Purchases from the Group's largest supplier and five largest suppliers, which comprise third-party manufacturers, accounted for approximately 10.5% (2019: 12.6%) and 32.6% (2019: 35.4%) respectively of the total purchases of the Group for the year ended 31 December 2020.

To the best knowledge of the Directors, none of the Directors, any of their close associates (within the meaning of the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange) or any Shareholders who or which owns more than 5% of the Company's issued share capital had any beneficial interest in any of the Group's five largest customers or suppliers during the year ended 31 December 2020.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with its employees, suppliers and customers. During the year ended 31 December 2020, there were no material and significant disputes between the Group and its employees, suppliers and/or customers.

DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this annual report are:

Executive Directors

Yin Yanbin (Chairman and Chief Executive Officer)
Zhuang Zhaohui
Chen Zhaohui
Zhou Chunnian
Chen Hua
Sun Guibin

Independent Non-executive Directors

Sun Hongbin
Wang Guangji
Zheng Qing

Pursuant to paragraph 84(1) of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

REPORT OF THE DIRECTORS

At the forthcoming annual general meeting of the Company (the "**AGM**"), Mr. Sun Hongbin and Mr. Zhou Chunnian will retire from office by rotation and, being eligible, offer themselves for election at the AGM. Mr. Sun Guibin will retire pursuant to the Articles provisions stated in the foregoing paragraph and indicates that he will not offer himself for re-election at the AGM. Mr. Sun Guibin will retire from directorship and be appointed as the director and the chief executive officer of Havay Group. Mr. Sun Guibin has confirmed that he has no disagreement with the Board and there is no matter that needs to be brought to the attention of the Shareholders in connection with his not standing for re-election. The Board and the Nomination Committee recommended the appointment of Ms. Diao Cheng as an executive Director. The Company's circular, sent together with this annual report, contains detailed information of the above recommended person as required by the Listing Rules.

BIOGRAPHIES OF DIRECTORS

Biographical details of the Directors are set out on pages 25 to 27 of this annual report.

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence in accordance with Rule 3.13 of the Listing Rules from each of Mr. Sun Hongbin, Mr. Wang Guangji and Ms. Zheng Qing, being the current Independent Non-executive Directors, and as at the date of this annual report, the Company still considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

Each Director has entered into a letter of appointment with the Company for a term of 3 years commencing from his/her date of appointment which term will continue, and such letter of appointment may be terminated by either party by serving not less than three-months' prior written notice for the case of executive Directors and one-month's prior written notice for the case of independent non-executive Directors, respectively, to the other party. Each Director will be re-elected at the AGM in accordance with the Articles.

Save as disclosed above, no Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the Directors' remuneration for the year ended 31 December 2020 are set out in note 10 to the consolidated financial statements.

REMUNERATION POLICY

The Directors' remuneration including the Directors' fees is subject to the Shareholders' approval at general meeting. Other emoluments are recommended by the Remuneration Committee for the Board's approval, having regard to the operating results of the Group, individual performance and comparable market statistics.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Related Party Transactions/Exempted Continuing Connected Transactions" on page 32 of this annual report and notes 7, 10, 22 and 34 to the consolidated financial statements, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company's holding company or any of the Company's subsidiaries was a party during or at the end of the year ended 31 December 2020, and no contract of significance to which the Company or any of its subsidiaries was a party and in which the Controlling Shareholders (as defined below) or an entity connected with the Controlling Shareholders (as defined below) had a material interest, either directly or indirectly, subsisted during or at the end of the year ended 31 December 2020.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS/EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Details of the related party transactions of the Group are set out in notes 7, 10, 22 and 34 to the consolidated financial statements.

During the year, the Group had the following continuing connected transactions which are exempted from the reporting, announcement or independent shareholders' approval requirements under Rule 14A.90 of the Listing Rules and are included herein for information only.

On 24 March 2020, a loan agreement was entered into between Nanjing Hanhe Enterprises Co., Ltd. ("**Hanhe Enterprises**"), an indirectly-owned subsidiary of Mr. Yin, as lender and Havay Group as borrower (the "**Loan Agreement**"), pursuant to which Hanhe Enterprises have agreed to provide a loan facility to Havay Group in the aggregate amount of RMB110,000,000 (the "**Loan Facility**") at interest rate of 2% per annum with a term of 2 years. On 1 December 2020, a supplemental agreement was entered into between Hanhe Enterprises and Havay Group, pursuant to which the interset rate was adjusted from 2% to 1.8% per annum with effect from 1 October 2020. As at 31 December 2020, the outstanding loan from Hanhe Enterprises amounting to RMB83.0 million. Detail terms of the Loan Facility were disclosed in note 22 of the consolidated financial statements.

As at the date of the Loan Agreement, Mr. Yin held approximately 55.31% of the issued share capital of the Company in aggregate and is the Controlling Shareholder (as defined below) and is therefore connected person of the Company. Accordingly, the Loan Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Loan Facility have been reviewed by the Independent Non-executive Directors who have confirmed that the transactions have entered into: (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (c) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of Shareholders as a whole. Accordingly, the Loan Facility is fully exempted from the shareholders' approval, annual review and all disclosure requirements under Rule 14A.90 of the Listing Rules.

Save in the notes to the consolidated financial statements and as disclosed above, the Group has not entered into any connected transaction or continuing connected transaction during the year which should be disclosed pursuant to the requirements under the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2020, the interests and short positions of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) which were required, to be recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

(i) Positions in the Shares

Name	Capacity/Nature of Interests	Number of Shares held		Approximate Shareholding Percentage	
		Long Position	Short Position	Long Position	Short Position
Mr. Yin (Note)	Interest in a controlled corporation	553,141,500	Nil	55.31%	Nil

Note:

Among these Shares, (a) 375,000,000 Shares are held by Commonwealth B, which is owned as to 80% by Commonwealth Yanbin Limited ("**Commonwealth Yanbin**") which is in turn wholly owned by Mr. Yin; and (b) 178,141,500 Shares are held by Commonwealth Happy Elephant, which is owned as to approximately 98.26% by Commonwealth YYB Limited ("**Commonwealth YYB**") which is in turn wholly owned by Mr. Yin. By virtue of the SFO, Mr. Yin is deemed to be interested in the 375,000,000 Shares held by Commonwealth B and the 178,141,500 Shares held by Commonwealth Happy Elephant.

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required, to be recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year or up to the date of this report were there any rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any of the Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 16 December 2019 (the "**Share Option Scheme**") which became effective on 21 January 2020. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Eligible persons of the Share Option Scheme, amongst others, include any employee (whether full-time or part-time, including any executive Director but excluding any Non-executive Director) of the Group, any Non-executive Director (including Independent Non-executive Directors) of the Group, any supplier, any customer, any person or entity that provides research, development or other technological support to the Group, any Shareholder of any member of the Group, any adviser (professional or otherwise) or consultant to the Group and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group.

REPORT OF THE DIRECTORS

The maximum number of Shares which may be issued under the Share Option Scheme and any other schemes of the Group must not exceed 100,000,000 Shares, representing 10% of the total number of Shares in issue as at the Listing Date of the Shares on the Stock Exchange.

The maximum number of shares issued and to be issued upon exercise of the options granted to any one eligible person (including exercised and outstanding options) under the Share Option Scheme in any 12-month period must not exceed 1% of the issued shares from time to time unless approved in advance by the Shareholders in general meeting with such eligible person and his close associates (as defined in the Listing Rules) (if such eligible person is a connected person) abstaining from voting.

Any offer of an option under the Share Option Scheme proposed to be made to a Director, chief executive of the Company or substantial Shareholder or to any of their respective associates must first be approved by the Independent Non-executive Directors (excluding Independent Non-executive Director who or whose associate is the grantee of the option). In addition, where any grant of options to a substantial Shareholder (as defined in the Listing Rules) or an Independent Non-executive Director or to any of their respective associates which would result in the relevant class of securities in issue and to be issued upon exercise of all options already granted or to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) in excess of 0.1% of the relevant class of securities in issue; and (ii) with an aggregate value (based on the closing price of the securities at the date of each grant) in excess of HK$5,000,000, such further grant of options is subject to approval by the Shareholders in general meeting, with such person, his associates and all core connected persons (as defined in the Listing Rules) of the Company abstaining from voting.

The offer of a grant of options under the Share Option Scheme may be accepted by the eligible person for a period of 21 days from the date of the offer and by payment received by the Company of HK$1.00 as consideration for the grant of an option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as to be determined and notified by the Directors to each grantee, but shall end in any event not later than 10 years from the date on which the option is deemed to be granted and accepted in accordance with the Share Option Scheme.

The Share Option Scheme will be valid and effective for a period of ten years from 21 January 2020.

The exercise price is determined by the Board and shall be at least the highest of: (i) the nominal value of a Share; (ii) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (iii) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheet for the five business days (as defined in the Listing Rules) immediately preceding the offer date.

As at 31 December 2020, no Share options were granted, cancelled, lapsed or forfeited under the Share Option Scheme and there were no outstanding Share options under the Share Option Scheme as at 31 December 2020.

EQUITY-LINKED AGREEMENTS

For the year, save for the Share Option Scheme previously mentioned, the Company has not entered into any equity-linked agreements, and there did not subsist any equity-linked agreement entered into by the Company as at 31 December 2020.

COMPLIANCE OF THE DEED OF NON-COMPETITION

As disclosed in the Prospectus, Mr. Yin and Ms. Wu Hailing ("**Ms. Wu**"), the spouse of Mr. Yin, Ms. Wang Wei, Mr. Pan Bing, Commonwealth B, Commonwealth Yanbin, Commonwealth Violet Limited, Commonwealth YYB, Commonwealth Happy Elephant, HMZ Holdings Ltd and HappyBean Holdings Limited (collectively, the "**Controlling Shareholders**") entered into with and in favour of the Company a deed of non-competition (the "**Deed of Non-competition**") on 19 December 2019. Pursuant to the Deed of Non-competition, each of the Controlling Shareholders has confirmed that none of them is engaged in, or interested in, any business (other than the Group) which, directly or indirectly, competes or may compete with our business. To protect the Group from any potential competition, each of the Controlling Shareholders has unconditionally and irrevocably undertaken in favour of the Company and the Group, on a joint and several basis, that at any time during the Relevant Period (as defined below), each of them shall, and shall procure that their respective close associates and/or companies controlled by them (other than the Group) shall:

(a) not, directly or indirectly, be interested or involved or engaged in or carry on or be concerned with or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business, or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by the Group in the PRC and any other country or jurisdiction to which the Group provides such products and/or services and/or in which any member of the Group carries on business mentioned above currently and from time to time (the "**Restricted Activity**");

(b) not solicit any existing employee or then existing employee of the Group for employment by it/him or its/his close associates (excluding the Group);

(c) not, without the consent from the Company, make use of any information pertaining to the business of the Group which may have come to its/his/her knowledge in its/his/her capacity as the Controlling Shareholder or otherwise for any purpose of engaging, investing or participating in any Restricted Activity;

(d) not, either on its/his/her own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of the Group) to conduct any Restricted Activity;

(e) not, either on its/his/her own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, solicit or endeavour to entice away from or discourage from dealing with the Group any person who was at any time during the period of one year preceding the date of the Deed of Non-competition a manufacturer for or supplier or subcontractor, customer or client of the Group;

(f) if there is any project or new business opportunity (the "**Business Opportunity**") that relates to the Restricted Activity and is offered or becomes aware to the Controlling Shareholders, they shall (i) promptly refer such project or new business opportunity to the Group in writing for consideration and provide such information as is reasonably required in order to enable the Group to come to an informed assessment of such opportunity, (ii) use its/his/her best endeavours to procure such opportunity offered to the Group on terms no less favourable than the terms on which such opportunity is offered to such Controlling Shareholder and/or its/his close associates, and (iii) with regard to any project or new business opportunity which shall have been rejected by the Group and the principal terms of which the Controlling Shareholders and/or any of his/its close associates and/or entities or companies controlled by him/it/her invest or participate shall be no more favourable than those made available to the Company;

(g) not invest or participate in or carry on any project or business opportunity of the Restricted Activity; and

(h) procure its/his/her close associates (excluding the Group) not to invest or participate in or carry on any project or business opportunity of the Restricted Activity.

REPORT OF THE DIRECTORS

The above undertakings under the Deed of Non-competition do not apply to:

(a) the holding of, or interests in, the shares of any members of the Group; and

(b) the holding of, or interests in, the shares of a company other than a member of the Group whose shares are listed on a recognised stock exchange provided that the total number of the shares held by the relevant Controlling Shareholder and/or its/his close associates does not exceed 5% of the issued shares of that class of the company in question, and such Controlling Shareholder and its/his/her respective close associates, whether acting singly or jointly, would not participate in or be otherwise involved in the management of the company in question.

Each of the Controlling Shareholders has further unconditionally and irrevocably undertaken to the Company and the Group:

(a) to allow the Directors, their respective representatives and the auditors to have sufficient access to the records of each of the Controlling Shareholders and their respective close associates to ensure compliance with the terms and conditions of the Deed of Non-competition;

(b) to provide to the Group and the Directors (including the Independent Non-executive Directors) from time to time all information necessary for the annual review by the Independent Non-executive Directors with regard to compliance with the terms of the Deed of Non-competition by the Controlling Shareholders; and

(c) to make an annual declaration as to full compliance with the terms of the Deed of Non-competition and a consent to disclose such letter in the annual report.

The obligations of the Controlling Shareholders under the Deed of Non-competition will remain in effect during the period (the "**Relevant Period**") from the Listing Date until the earlier of the date on which:

(a) the Controlling Shareholders, together with their close associates, whether individually or taken together, cease to be interested directly or indirectly in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining controlling shareholder) or more of the issued share capital of the Company; or

(b) the Shares cease to be listed and traded on the Stock Exchange.

The Directors believe the 30% threshold is justifiable as it is equivalent to the thresholds applied under the Listing Rules and the Codes on Takeovers and Mergers and Share Buybacks issued by the SFC (the "**Takeovers Code**") for the concept of "control".

For details of the Non-Competition Deed, please refer to the section headed "Relationship with Controlling Shareholders - Deed of Non-Competition" in the Prospectus.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Deed of Non-Competition for disclosure in this annual report during the year ended 31 December 2020. The Independent Non-executive Directors have also reviewed the compliance and enforcement status of the Deed of Non-competition, and are of the view that the Controlling Shareholders have abided by the undertakings contained in the Deed of Non-competition during the year ended 31 December 2020.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, so far as is known to the Directors or chief executive of the Company, the following persons (other than Directors or chief executive of the Company), who had interests or short positions in the shares and the underlying Shares which were recorded in the register required to be kept under Section 336 of the SFO were as follows.

Positions in the Shares

Name	Capacity/Nature of Interests	Number of Shares held		Approximate Shareholding Percentage	
		Long Position	Short Position	Long Position	Short Position
Commonwealth B	Beneficial owner	375,000,000	Nil	37.50%	Nil
Commonwealth Yanbin	Interest in controlled corporation (Note 1)	375,000,000	Nil	37.50%	Nil
Commonwealth Happy Elephant	Beneficial owner	178,141,500	Nil	17.81%	Nil
Commonwealth YYB	Interest in controlled corporation (Note 2)	178,141,500	Nil	17.81%	Nil
Ms. Wu	Interest of spouse (Note 3)	553,141,500	Nil	55.31%	Nil
Commonwealth GHW	Beneficial owner	186,058,500	Nil	18.61%	Nil

Notes:

1. Commonwealth B is owned as to 80% by Commonwealth Yanbin which is in turn wholly-owned by Mr. Yin. By virtue of the SFO, each of Commonwealth Yanbin and Mr. Yin is deemed to be interested in the Shares held by Commonwealth B.

2. Commonwealth Happy Elephant is owned as to approximately 98.26% by Commonwealth YYB which is in turn wholly owned by Mr. Yin. By virtue of the SFO, each of Commonwealth YYB and Mr. Yin is deemed to be interested in the Shares held by Commonwealth Happy Elephant.

3. Ms. Wu is the spouse of Mr. Yin and is deemed to be interested in the Shares which are interested by Mr. Yin under the SFO.

Save as disclosed above, as at 31 December 2020, no person, other than the Directors and Chief Executive of the Company, whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company" above, had registered an interest or short position in the Shares or underlying Shares that was required to be recorded pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

SUBSEQUENT EVENTS

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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this annual report.

PERMITTED INDEMNITY PROVISIONS

Pursuant to code provision (the "**Code Provisions**") A.1.8 of the Corporate Governance Code (the "**CG Code**") set out under Appendix 14 to the Listing Rules and subject to the provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**"), the Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of any losses or liabilities incurred, or any legal actions brought against the Directors and management of the Group which may arise out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the Shareholders entitled to attend and vote at the AGM 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).

CORPORATE GOVERNANCE

The principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report on pages 40 to 51 of this annual report.

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company established 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.

AUDITOR

Deloitte Touche Tohmatsu will retire and a resolution for their re-appointment as auditor of the Company will be proposed at the AGM**.**

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

Hong Kong, 26 March 2021

The English translation of Chinese names or words in this report, where indicated by "*", are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company was listed on the Stock Exchange on 21 January 2020. The Company has adopted 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" of this corporate governance report. 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set forth in Appendix 10 of the Listing Rules 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.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Promoting good corporate governance and managing enterprisewide risk is a priority of the Company. The Company is convinced that corporate governance and directors and officers liability insurance (the "**D&O Insurance**") complement each other. The Company has arranged appropriate D&O Insurance coverage on Directors' and officers' liabilities in respect of legal actions against the Directors and senior management arising from corporate activities. The D&O Insurance will be reviewed and renewed annually.

BOARD OF DIRECTORS

The Board

The Board, led by the Chairman of the Board, is responsible for leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance. The Board has delegated to the management of the Company the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

The Board reserved its decision for all major matters of the Company, including approving and monitoring all policy matters, overall strategies and budgets, risk management and internal control systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Daily management and administration functions were delegated to the management. The Board has delegated various responsibilities to the management of the Company. These responsibilities include implementing decisions of the Board, directing and co-ordinating day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the operation and production plans and budgets, and supervising and monitoring the internal control systems.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interest of the Company and the Shareholders at all times.

The Company held four Board meetings, one AGM and nil extraordinary general meetings ("**EGM**") throughout the year. During the year, the Chairman held a meeting with the independent non-executive Directors without the presence of other Directors.

CORPORATE GOVERNANCE REPORT

At least 14 days' notice for all regular Board meetings will be given to all Directors and they must be given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice will be given. Relevant agenda and accompanying Board papers will be sent to all Directors at least 3 days in advance of every regular Board meeting.

Board Composition

During the year ended 31 December 2020 and up to the date of this annual report, the composition of the Board as at the date of this report is as follows:

Executive Directors
Yin Yanbin (Chairman and Chief Executive Officer)
Zhuang Zhaohui
Chen Zhaohui
Zhou Chunnian
Chen Hua
Sun Guibin

Independent Non-executive Directors
Sun Hongbin
Wang Guangji
Zheng Qing

An updated list of Directors identifying their roles and functions has been published on the websites of the Company and the Stock Exchange, and the independent non-executive Directors have been identified in all corporate communications that disclose the names of Directors.

Relationship

There was no financial, business, family or other material relationship among the Directors. The biographical details of the Directors are set out in the section of "Biographical Details of Directors and Senior Management" of this annual report.

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 was the Chairman of the Board and also the Chief Eecutive 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.

CORPORATE GOVERNANCE REPORT

Directors' Attendance Record

The Company was listed on the Stock Exchange on 21 January 2020. During the year ended 31 December 2020, four board meeting was held and the individual attendance record of each of the Directors is set out in the following table:

	Attendance/ Number of meetings
Executive Directors	Board Meetings
Yin Yanbin (Chairman and Chief Executive Officer)	4/4
Zhuang Zhaohui	4/4
Chen Zhaohui	4/4
Zhou Chunnian	4/4
Chen Hua	4/4
Sun Guibin	4/4
Independent Non-executive Directors	
Sun Hongbin	4/4
Wang Guangji	4/4
Zheng Qing	4/4

Regular Board meetings are scheduled at approximately quarterly intervals. Minutes of the Board meetings and the meetings of the Board committees are recorded in sufficient details. Originals of such minutes, being kept by the Company Secretary, are open for inspection at any reasonable time on reasonable notice by any Director. Directors may have access to the senior management and the Company Secretary at all time and, upon reasonable request, obtain independent professional advice under appropriate circumstances and as and when necessary at the Company's expense, ensuring that Board procedures and all applicable rules and regulations are followed. If a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter must be dealt with by a physical Board meeting with the independent non-executive Directors present at the meeting rather than by written resolutions.

The Board is responsible for maintaining an on-going dialogue with Shareholders and in particular, using annual general meetings or other general meetings to communicate with them and encourage their participation.

Appropriate insurance cover has been arranged by the Company in respect of relevant actions against the Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2020, the Board had complied with the requirement as set out in the Listing Rules regarding appointment of at least three independent non-executive Directors, representing one-third of the Board, one of which, namely Ms. Zheng Qing, shall have appropriate professional qualifications or accounting or related financial management expertise. Independent non-executive Directors play an important role through their independent judgments and advice of which is of great influence to the decision of the Board.

Each independent non-executive Director signed a letter of appointment with the Company for a term of three years since their respective dates of appointment unless terminated by not less than one month's notice in writing or as may be agreed between the independent non-executive Director and the Company. The Company has received an annual confirmation of independence from each of the three independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considered that all the independent non-executive Directors to be independent.

CORPORATE GOVERNANCE REPORT

Appointment and Re-election of Directors

Each Director has entered into a letter of appointment with the Company with an initial term of three years commencing from the date of appointment and is subject to the re-appointment in accordance with the Articles. The letter of appointment for each executive Director can be terminated by not less than three months' notice in writing or as may be agreed between the executive Director and the Company.

In accordance with the Articles, the Directors appointed to fill a casual vacancy on the Board shall be subject to re-election by Shareholders at the first general meeting after their appointments and any Directors appointed by the Board as an addition to the existing Board shall then be eligible for re-election at the next following annual general meeting. Every Directors (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meetings of the Company. At each annual general meeting, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest but not less than one-third, shall retire from office by rotation and shall be eligible for re-election.

At the forthcoming AGM, Mr. Sun Hongbin and Mr. Zhou Chunnian will retire from office by rotation and, being eligible, offer themselves for election at the AGM. Mr. Sun Guibin will retire pursuant to the Articles provisions stated in the foregoing paragraph and indicates that he will not offer himself for re-election at the AGM. Mr. Sun Guibin will retire from directorship and be appointed as the director and the chief executive officer of Havay Group. Mr. Sun Guibin has confirmed that he has no disagreement with the Board and there is no matter that needs to be brought to the attention of the Shareholders in connection with his not standing for re-election. The Board and the Nomination Committee recommended the appointment of Ms. Diao Cheng as an executive Director. The Company's circular, sent together with this annual report, contains detailed information of the above recommended person as required by the Listing Rules.

Continuous Professional Development

Each newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Pursuant to Code Provision A.6.5 of the CG Code, the Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses. According to the records of the Company, in 2020, all Directors attended training sessions on duties and obligations of directors of companies listed on the Stock Exchange, covering topics on connected transactions and corporate governance. The Company also provided periodic legal updates and developments on the Listing Rules, the Companies Ordinance, news updates from the Stock Exchange and Securities & Futures Commission of Hong Kong and other relevant legal and regulatory requirements to all Directors, as well as regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

CORPORATE GOVERNANCE REPORT

According to the confirmation/records provided by the Directors, all the Directors have participated in the continuous professional developments in the following manners during the year ended 31 December 2020:

	Attending or participating in seminars/ in-house briefing or reading materials relevant to the Company's business/ director's duties
Executive Directors	
Yin Yanbin (Chairman and Chief Executive Officer)	√
Zhuang Zhaohui	√
Chen Zhaohui	√
Zhou Chunnian	√
Chen Hua	√
Sun Guibin	√
Independent Non-executive Directors	
Sun Hongbin	√
Wang Guangji	√
Zheng Qing	√

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee, to handle particular responsibilities of the Board and the Company's affairs. All Board committees of the Company are established with defined written terms of reference which have been uploaded to the website of the Stock Exchange and that of the Company, and are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee was established on 16 December 2019 with specific written terms of reference which is available on the websites of the Stock Exchange and the Company. As at the date of this report, the Audit Committee consists of three independent non-executive Directors, namely Ms. Zheng Qing (chairlady), Mr. Sun Hongbin and Mr. Wang Guangji. The primary duties of the audit committee include reviewing and supervising the Company's financial reporting processes, risk management and internal control systems, nominating and monitoring external auditors and providing advice and comments to the Directors.

CORPORATE GOVERNANCE REPORT

The Audit Committee schedules to hold at least two meetings a year. During the year, the Audit Committee convened four meetings and the individual attendance record of each of the members is set out in the following table:

	Attendance/Number of Audit Committee Meetings
Members	
Zheng Qing (Chairlady of the Audit Committee)	4/4
Sun Hongbin	4/4
Wang Guangji	4/4

This annual report has been reviewed by the Audit Committee.

Nomination Committee

The Nomination Committee was established on 16 December 2019 with specific written terms of reference which is available on the websites of the Stock Exchange and the Company.

As at the date of this report, the Nomination Committee consists of one Executive Director, namely Mr. Sun Guibin (as chairman) and two independent non-executive Directors, namely Ms. Zheng Qing and Mr. Sun Hongbin. The primary duties of the nomination committee include reviewing the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge) of the Board; making recommendations on any proposed changes to the Director and senior management to complement the Company's corporate strategy; identifying individuals suitably qualified to become Board members; making recommendations to the Board on appointment or re-appointment of the Directors; in identifying suitable individuals, considering individuals on merit and against the objective criteria, with due regard for the benefits of diversity on the Board; reviewing the board diversity policy, as appropriate; and assessing the independence of the independent Non-executive Directors.

The Nomination Committee may obtain independent professional advice to perform its responsibilities, where necessary, at the Company's expense.

The Nomination Committee schedules to hold at least two meetings a year. During the year, the Nomination Committee convened two meetings and the individual attendance record of each of the members is set out in the following table:

	Attendance/Number of Nomination Committee Meetings
Members	
Sun Guibin (Chairman of the Nomination Committee)	2/2
Zheng Qing	2/2
Sun Hongbin	2/2

CORPORATE GOVERNANCE REPORT

Nomination Policy

The Board has established a set of nomination policy setting out the approach to nominate suitable candidates to the Board for it to consider and make recommendations to Shareholders for election as directors of the Group at general meetings or appoint as Directors to fill casual vacancies. The criteria of nomination have been considered from a number of aspects, including but not limited to, skills, experience, qualifications and aspects as detailed in the board diversity policy.

During this year, the Company reviewed its nomination policy for a formal, considered and transparent procedure to help identifying and nomination of candidates for Directors. All valid nomination of candidates, accompanied with biographical details, would be presented to the Board for consideration. Consideration would be given to factors such as the candidate's integrity, experience and qualifications relevant to the Group's business. It is believed that members of the Nomination Committee collectively would have required relevant knowledge and skills to identify, invite and evaluate qualifications of nominated candidates for directorship.

The process of our appointment and re-election of Directors are as follows:

Potential new Directors are identified and considered for appointment at any time by the Board upon the recommendation of the Nomination Committee. Nomination Committee considers the candidates based on merit having regard to the knowledge, experience, skills and expertise as well as the overall board diversity which, in the opinion of the Directors, will enable them to make positive contributions to the performance of the Board and makes recommendations to the Board as appropriate. Emoluments of new directors will be considered by the Remuneration Committee.

Newly appointed members by the Board to fill a casual vacancy on the Board is subject to re-election by Shareholders at the first general meeting after their appointment or as addition to the existing Board is subject to re-election by Shareholders at the first annual general meeting after their appointment. All executive Directors and Non-executive Directors are subject to re-election by Shareholders every 3 years.

Board Diversity Policy

The Company continuously seeks to enhance the effectiveness of the Board and to maintain a high standard of corporate governance and recognises and embraces the benefits of diversity in the composition of the Board.

In December 2019, the Company has adopted a board diversity policy (the "**Board Diversity Policy**") for compliance with the Code Provision of the Listing Rules concerning the diversity of Board members. The Company recognises and embraces the benefits of diversity in Board members. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors. These differences will be taken into account in determining the optimum composition of the Board. All Board appointments will be based on merit while taking into account diversity including gender diversity.

As at the date of this report, the Board comprises nine Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process.

The Nomination Committee will continue to review the Board Diversity Policy from time to time to ensure its continued effectiveness.

Remuneration Committee

The Remuneration Committee was established on 16 December 2019 with specific written terms of reference which is available on the websites of the Stock Exchange and the Company. As at the date of this report, the Remuneration Committee consists of two independent non-executive Directors, namely Ms. Zheng Qing (as chairlady) and Mr. Sun Hongbin and one executive Director, namely Mr. Zhuang Zhaohui. The primary duties of the Remuneration Committee include evaluating the performance of executive Directors and senior management and determining their remuneration packages and making recommendations on the remuneration of non-executive Directors.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual Executive Directors and management of the Company.

During the process of consideration, no individual Director will be involved in decisions relating to his/her own remuneration.

The Remuneration Committee may obtain independent professional advice to perform its responsibilities, where necessary, at the Company's expense.

The Remuneration Committee schedules to hold at least two meetings a year. During the year, the Nomination Committee convened two meetings and the individual attendance record of each of the members is set out in the following table:

	Attendance/Number of Remuneration Committee Meetings
Members	
Zheng Qing (Chairlady of the Remuneration Committee)	2/2
Zhuang Zhaohui	2/2
Sun Hongbin	2/2

Risk Management Committee

The Risk Management Committee was established on 16 December 2019 with specific written terms of reference which is available on the websites of the Stock Exchange and the Company. As at the date of this report, the Risk Management Committee consists of three executive Directors, namely Mr. Zhou Chunnian (as chairman), Mr. Chen Hua and Mr. Sun Guibin. The primary duties of the Risk Management Committee include monitoring the Company's exposure to sanctions law risks and its implementation of the related internal control procedures.

The Risk Management Committee schedules to hold at least two meetings a year. During the year, the Nomination Committee convened two meetings and the individual attendance record of each of the members is set out in the following table:

	Attendance/Number of Risk Management Committee Meetings
Members	
Zhou Chunnian (Chairman of the Risk Management Committee)	2/2
Chen Hua	2/2
Sun Guibin	2/2

CORPORATE GOVERNANCE REPORT

Remuneration of the Senior Management

Pursuant to Code Provision B.1.5 of the CG code, the remuneration of the Senior Management by band for the year ended 31 December 2020, is set out as below:

Band of remuneration (HK$)	No. of person	
	2020	2019
HK$1,000,000 and below	**7**	7
HK$1,000,001 to HK$1,500,000	**2**	2

Further details of the remuneration of Directors and five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 10 to the consolidated financial statements.

Accountability and Audit

Financial Reporting

Financial results of the Group are announced in a timely manner in accordance with all statutory requirements, particularly the timeframe stipulated in Rule 13.49(1) and (6) of the Listing Rules.

All Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group for the year ended 31 December 2020. Currently, the Company's external auditor is Deloitte Touche Tohmatsu (the "**Auditor**").

The Directors' responsibilities in preparing the consolidated financial statements and the Auditor's responsibilities are set out in the Independent Auditor's Report on pages 71 to 75 of this annual report.

The Board is also responsible for presenting a balanced and clear assessment of the Group's performance and prospects. Management of the Company provides all relevant information to the Board, giving its members sufficient explanation and information that it needs to discharge its responsibilities.

Auditor's Remuneration

The fees paid or payable to the Auditor of the Company for the year ended 31 December 2020 are set out as follows:

	Fees paid/payable
	RMB'000
Audit service	1,880

RISK MANAGEMENT AND INTERNAL CONTROLS

A sound and effective risk management and internal control system is important to safeguard the Shareholders' investment and the Group's assets. The Board acknowledges its responsibility for the risk management and internal control systems of the Group and reviewing their effectiveness. Such systems are designed to manage, rather than eliminate, the risk associated in failing to achieve certain business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company has established the internal audit function to perform annual financial review, which generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems.

The Audit Committee assists the Board in leading the management to oversee the formation, implementation and monitoring of the risk management and internal control systems.

The "top-down approach" and the "bottom-up approach" were adopted by the Group in order to measure the risks faced by the Group. The internal processes of risk assessment and measurement involve the participation of management in assessing the risk exposure such as identifying the risks and their impact. The Board, as supported by the Audit Committee, has reviewed and assessed the effectiveness of the risk management and internal control systems by reviewing the reports prepared by the internal audit function and the internal audit findings at each regularly scheduled meeting and considered that the risk management and internal control systems of the Group are effective and adequate for the year ended 31 December 2020.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2020, including financial, operational and compliance controls and risk management function.

The management shall report to the Board as soon as practicable for any event which may constitute inside information, and the Board shall decide to make relevant disclosure in a timely manner, if required.

Delegation by the Board

In general, the Board oversees the Group's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

COMPANY SECRETARY

Mr. Wu Wing Hou was appointed as the Company Secretary of the Company with effect from 14 December 2018. During the year ended 31 December 2020, Mr. Wu Wing Hou has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

INVESTOR RELATIONS

Communication with Shareholders

The Board recognises the importance of maintaining a clear, timely and effective communication with the Shareholders and investors of the Company. The Board also recognises 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.

CORPORATE GOVERNANCE REPORT

In respect of each matter to be considered at the annual general meetings and extraordinary general meetings, including the re-election of Directors, a separate resolution will be proposed by the Chairman of the Board. Voting at general meetings of the Company is conducted by way of poll in accordance with the Listing Rules. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

Members of the Board and chairpersons of various Board committees will attend the forthcoming annual general meeting of the Company to be held on Wednesday, 26 May 2021 at 5:00 p.m. (the "**AGM**") to answer questions raised by the Shareholders. Pursuant to Code Provision E.1.2, the Company will invite representatives of the auditor to attend the AGM to answer Shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and the auditor's independence.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard Shareholders' interests and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors, for Shareholders' consideration and voting. Besides, various rights of Shareholders, including the right to propose resolutions, are contained in the Articles.

The summary of certain rights of the Shareholders are disclosed below:

Procedures for Convening Extraordinary General Meetings and Putting Forward Proposals at General Meetings

Each general meeting other than an annual general meeting shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by the Board. According to Article 58 of the Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Any requisition to convene an extraordinary general meeting or proposal to be put forward at the general meeting can be addressed to the Secretary of the Company at the Company's principal place of business in Hong Kong at Unit 15C, 15/F, 235 Wing Lok Street Trade Centre, 235 Wing Lok Street, Sheung Wan, Hong Kong. The requisitionist(s) must state in their request(s) the objects of the extraordinary general meeting to be convened, and such request must be signed by all the requisitionist(s). Upon receipt, the Company will verify the particulars of requisitionist(s) and if the request is in order, the Company will convene the extraordinary general meeting in accordance with the Articles.

Procedures for Shareholders to Propose a Person for Election as a Director

The Articles published on the websites of the Company and the Stock Exchange and the "procedures for shareholders to propose a person for election as a director of the Company" on the website of the Company.

Procedures for Directing Shareholders' Enquiries to the Board and Company's Contact Details

Shareholders and other stakeholders may send their enquiries, concerns and requisitions to the Board by addressing them to the Company Secretary at the Company's principal place of business in Hong Kong at Unit 15C, 15/F, 235 Wing Lok Street Trade Centre, 235 Wing Lok Street, Sheung Wan, Hong Kong.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

DIVIDEND POLICY

The Board has approved and adopted a dividend policy (the "**Dividend Policy**"). It is the policy of the Board in declaring or recommending a payment of dividends, to allow shareholders to participate in the Company's profits and for the Company to retain adequate reserves for future growth.

The Board shall consider the following factors before declaring or recommending any dividend:

(i) financial results;

(ii) cash flow situation;

(iii) business conditions and strategies;

(iv) future operations and earnings:

(v) capital requirements and expenditure plans;

(vi) interests of shareholders;

(vii) any restrictions on payment of dividends; and

(viii) any other factors that the Board may consider relevant.

Depending on the factors set out above, dividends may be proposed and/or declared by the Board for a financial year or period as follows:

- interim dividend;
- final dividend;
- special dividend; and
- any distribution of net profits that the Board may deem appropriate.

The payment of dividend is also subject to applicable laws and regulations and the Company's Articles.

Whilst the Dividend Policy reflects the Board's current views on the financial and cash-flow position of the Group, such Dividend Policy will continue to be reviewed from time to time and there can be no assurance that dividends will be recommended or declared in any particular amount for any given period. The declaration of or recommendation of declaration of dividends is subject to the absolute discretion of the Board. Even if the Board decides to recommend and declare dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors of and affecting the Group.

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.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020, there was no change in the Company's constitutional documents. The Memorandum and Articles of Association of the Company are available on the Company's website and on the website of the Stock Exchange.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CORPORATE PROFILE

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. We have an operating history of over 20 years since 1995 by Mr. Yin, the founder of our Group, the Chairman and Chief Executive Officer, to engage in selling applied chemical intermediates produced by third party manufacturers.

We began to manufacture our own branded products of animal nutrition chemicals such as choline chloride, pharmaceutical intermediates such as iodine derivatives and polyurethane materials such as polymer polyether in 2004, 2008 and 2012, respectively. Currently, we have two production plants in the PRC which are strategically located in Tai'an, Shandong Province and Xuzhou, Jiangsu Province, and our production plant in Binh Duong Province, Vietnam also commenced production in 2016.

ABOUT THIS REPORT

Our Group hereby publishes its Environment, Social and Governance (ESG) Report ("**ESG Report**") and presents its sustainability performance. The report content aims to increase the transparency of the Group's sustainability strategy, and describe how the Group has achieved steady growth in its performance, by blending in essential elements for sustainable development such as safety and environmental protection through its creativity and professionalism.

REPORTING STANDARD AND SCOPE

This report has been prepared in accordance with the Environment, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules prescribed by the Stock Exchange. The report covers the Group's activities from 1 January 2020 to 31 December 2020. The scope of the report includes the Group's environmental and social performance. Information on corporate governance will be separately presented in the annual report in accordance with Appendix 14 of the Listing Rules.

THE BOARD'S OVERSIGHT OF ESG ISSUES

The Group has developed its environmental protection and social sustainability strategies, and designated teams are established within each business unit of the Group to manage ESG issues. The Board has the ultimate responsibility of ensuing the development and effectiveness of the Group's ESG policies and measures, while Mr. Wu Wing Hou, chief financial officer and company secretary, would report to the Board with regards to the ESG management.

STAKEHOLDER COMMUNICATION

The Group places great emphasis on the valuable opinions of all stakeholders regarding the operations and believes that their feedbacks will help the Group to continuously improve the quality of its products and services, which in turn optimizes its corporate management. The Group hopes to transparently communicate with its stakeholders the direction and progress of its sustainable development through a range of diversified communication channels, so that the Group can understand and consider the opinions of all parties to formulate development plans. The communication channels and discussion sections between the Group and its stakeholders are as follows:

Stakeholder	Communication Channel	Related Topic	Achievement in the year
Government Authority	• Attending government meeting • Reporting to relevant authorities actively • Accepting supervision	• Operation compliance • Environmental emission compliance • Legitimacy of our products	• Complying with relevant laws and regulations • Meeting relevant environmental regulations and requirements
Investor/ Shareholder	• General Meeting • Disclosing listing information • Activities such as public announcements	• Corporate governance • Business operation • Information disclosure	• Complying with relevant rules and regulations to release public announcements and information
Customer	• Customer complaint mechanism • Customer satisfaction assessment • E-communication	• Customer satisfaction • Product quality and safety	• General customer satisfaction
Employee	• Regular and irregular interviews with employees • Employee trainings • Employee activities	• Training and development • Remuneration and benefits • Occupational health and safety	• Organizing introductory training, regular training and safety training • Providing mark-to-market remuneration package
Supplier	• Supplier meeting • Telephone inquiry • On-site inspection	• Communication with suppliers • Product quality risk management	• Visiting suppliers and holding supplier meeting
Media	• Press conference • Email communication • Telephone interview	• Information disclosure	• Complying with relevant rules and regulations to release public announcements and information
Community	• Participating community activities • Social donation	• Environment protection • Social contribution	• Donating approximately RMB200,000 to charity funds • Collaborating with governments at all levels to prevent and control the epidemic

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

The management and employees who are responsible for the key functions of the Group have participated in preparing this report, assisted the Group in reviewing its operation, identifying key environmental, social and governance issues and assessing the importance of these issues to our businesses and stakeholders. Through internal discussion, we identified material environmental, social and governance issues to collect the information from relevant departments and business units of the Group.

CONTACT DETAILS

If you have any comments or suggestions upon this report, please contact us through following ways:

Address: 6th Building, Xincheng Science Park, No. 69 Aoti Street, Nanjing, PRC
Tel: (86) 025 8473 4356
(852) 3590 8200
Email: ghw@goldenhighway.com

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX

The following table summarises the Group's significant environmental, social and governance issues as set out in this report:

The ESG Reporting Guide/KPI	Material ESG aspects of the Group/KPI description	Page
A. Environment		
A1. Emissions	GHG Emission	57-58
	Waste Management (including waste gas, waste water and solid waste)	58-60
A1.1	The types of emissions and respective emissions data.	57-60
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	57-58
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	59
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	59
A1.5	Description of measures to mitigate emissions and results achieved.	57-60
A1.6	Description of how hazardous and nonhazardous wastes are handled, reduction initiatives and results achieved.	59-60
A2. Use of Resources	Energy Consumption	60-61
	Water Consumption	61-62
	Use of Packaging Materials	62
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity.	60
A2.2	Water consumption in total and intensity.	61
A2.3	Description of energy use efficiency initiatives and results achieved.	61
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	61-62
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	62

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The ESG Reporting Guide/KPI	Material ESG aspects of the Group/KPI description	Page
A. Environment		
A3. Environment and Natural Resources	Environmental Impact Management	62-63
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	62-63
B. Society		
B1. Employment	Employee Benefits and Equal Opportunities Policies	63-64
B1.1	Total workforce by gender, employment type, age group and geographical region.	64
B1.2	Employee turnover rate by gender, age group and geographical region.	64
B2. Health and Safety	Occupational Health and Safety	65-66
B2.1	Number and rate of work-related fatalities.	65
B2.2	Lost days due to work injury.	65
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	65-66
B3. Development and Training	Staff Development and Training	66
B3.1	The percentage of employees trained by gender and employee category	66
B3.2	The average training hours completed per employee by gender and employee category.	66
B4. Labor Standards	Prevention of Child Labor or Forced Labor	67
B4.1	Description of measures to review employment practices to avoid child and forced labour.	67
B4.2	Description of steps taken to eliminate such practices when discovered.	67
B5. Supply Chain Management	Environmental and Social Risk Management of Supply Chain	67-68
B5.1	Number of suppliers by geographical region.	68
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	67-68

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The ESG Reporting Guide/KPI	Material ESG aspects of the Group/KPI description	Page
B. Society		
B6. Product Responsibility	Product Responsibility	68-70
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	69
B6.2	Number of products and service related complaints received and how they are dealt with.	69
B6.3	Description of practices relating to observing and protecting intellectual property rights.	69
B6.4	Description of quality assurance process and recall procedures.	68-69
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	70
B7. Anti-Corruption	Prevention of Corruption and Fraud	70
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the year ended 31 December 2020 and the outcomes of the cases.	70
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	70
B8. Community Investment	Contributions to Society	70
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	70
B8.2	Resources contributed (e.g. money or time) to the focus area.	70

During the year ended 31 December 2020, the Group confirmed that appropriate and effective management policies and internal control systems for environmental, social and governance issues are in place and confirmed the information disclosed in the ESG Report meets the ESG Reporting Guide.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENT

A1. Emissions

General disclosure and key performance indicators ("KPI")

We have been, and intend to continue to be, committed to observing environmental protection and safety regulations in all of our business activities to ensure our operations are in compliance with those regulations. According to the PRC environmental laws and regulations, chemical manufacturers in the PRC must comply with environmental laws and regulations stipulated by the state and the local environmental protection authorities. According to the Vietnamese law on environmental protection, enterprises need to make and apply reports on assessment of environmental impact or environmental protection plan to the competent authority. During our production processes, sewage, waste gas and solid waste are regularly discharged. Our operations are therefore subject to numerous national and provincial environmental laws and regulations governing the discharge of waste water, waste gas emission and hazardous chemicals.

In order to comply with the relevant laws and regulations in the PRC and Vietnam, we have established the safety and environmental protection department (consisting of 21 staff members as at 31 December 2020) which is in charge of the preparation and implementation of our environmental, health and safety policies in our daily operations. The environmental, health and safety policies cover various aspects of our operations, including production, storage and transportation of our products and raw materials, repair of our equipment, prevention of pollution, training and protection of employees' health.

Our environmental policies focus on ensuring that our production emission control, treatment of waste water are in compliance with the relevant regulations and policies of national and local governments. In addition, we have installed waste treatment facilities on our production plants to handle our discharges from the manufacturing process.

During the year ended 31 December 2020 and up to the date of this report, we had produced the following waste materials, which have been dealt with through the implementation of corresponding environmental measures:

GHG

Greenhouse gas ("GHG") emissions	2020	2019
Direct GHG emission (tCO_2e)	**5,033.4**	1,580.9
Indirect GHG emission (tCO_2e)	**8,711.6**	8,256.7
Total GHG mission (tCO_2e)	**13,745.0**	9,837.6
Direct GHG Emission Intensity (direct GHG emission/M' RMB revenue derived from sales of self-manufactured chemicals)	**3.90**	1.37
Indirect GHG Emission Intensity (indirect GHG emission/M' RMB revenue derived from sales of self-manufactured chemicals)	**6.75**	7.15
GHG Emission Intensity (total GHG emission/M' RMB revenue derived from sales of self-manufactured chemicals)	**10.65**	8.52

The scope of the above GHG statistics includes data from Tai'an, Xuzhou and Vietnam production plants.

The majority of the Group's energy consumption includes the electricity in all premises, the natural gas, coal and steam in our production plants. The use of natural gas and coal contributes to direct GHG emissions, while the use of electricity and purchased steam contributes to indirect greenhouse gas emissions. In the face of global warming caused by GHG, the Group advocates energy conservation and emission reduction. Employees must work with the energy system within operations to use energy efficiently.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the year ended 31 December 2020, the direct GHG and indirect GHG emission have increased by 218.4% and 5.5% respectively, as compared to the same period in the last year owing to the great increase in production volume. During the current year, we had largely utilized our production capacity of choline chloride and betaine and the external supply of steam is not sufficient to meet our needs for production. As a result, we purchased machines and equipment to produce additional steam for self-use since second half of 2020. This led to the increase in our direct GHG emission. There was an increase in GHG emission intensity mainly because of the decrease in unit market price of our major self-manufactured products such as choline chloride and betaine.

Waste gas

Waste gas	2020	2019
NOx emissions (tonnes)	**12.6**	10.6
NOx emissions intensity (NOx emissions/M' RMB revenue derived from sales of self-manufactured chemicals)	**0.0098**	0.0092
SOx emissions (tonnes)	**3.4**	3.9
SOx emissions intensity (SOx emissions/M' RMB revenue derived from sales of self-manufactured chemicals)	**0.0026**	0.0034
PM emissions (tonnes)	**3.5**	3.7
PM emissions intensity (PM emissions/M' RMB revenue derived from sales of self-manufactured chemicals)	**0.0027**	0.0032

The scope of the above waste gas statistics includes data from Tai'an, Xuzhou and Vietnam production plants.

Waste gas is generated during the production process. We adopt the following measures to minimise the impact of the waste gas.

- Tail gas in storage tank or measuring tank of certain chemicals including trimethylamine, hydrochloric acid, ethylene oxide and the waste gas generated from the decarboxylated cashew nut shell oil is permitted to be emitted only after absorption, combustion or purification in the absorption tower;
- Certain gas generated during production are absorbed or purified to ensure its concentration and emission rate meets the relevant emission standard of air pollutants;
- Pipes and equipment are tightly welded and more trainings are provided to the staff who are responsible for operating the equipment to perform annual leakage detection and repair on the pipes and equipment in order to minimise fugitive emission; and
- The LDAR management system is utilised at our production plants to detect and repair any possible gas leakage so as to minimise emission of volatile gases.

During the year ended 31 December 2020, the NOx, SOx and PM emissions had increased by 18.9%, reduced by 12.8% and 5.4%, respectively, as compared to the same period in the last year. Although the emissions of NOx increased, it was assured that the emissions did not exceed the emission standards during the year ended 31 December 2020. During the current financial year, we have established quarterly inspection and repairment of pipes in order to ensure that all leakage points were fixed in a short period of time. This effectively reduced emission of waste gas. Besides, closed pipeline system was adopted in the transportation of waste materials and waste water in order to reduce the leakage and volatilization of pollutants. We also replaced waste gas absorption filters to enhance waste gas absorption efficiency. We will continue to explore feasible emissions reduction measures to constantly reduce impacts on the environment.

Waste water

Waste water	2020	2019
Wastewater quantity (m^3)	517,327	442,655

The scope of the above waste water statistics includes data from Tai'an, Xuzhou and Vietnam production plants.

During the year ended 31 December 2020, the waste water quantity has increased as compared to the same period in the last year. It was mainly due to the great increase in production capacity and volume result in increasing waste water and moisture content of materials during the reaction process. Although we had adopted condensation water recycling method to reduce water consumption, the increasing production volume during the year still outweigh the reduction of waste water upon the recycling method, leading to an increasing waste water production.

To reduce the effect of water pollution, we have installed sewage treatment facilities at our production plants to treat all sewage generated during the production process of our products until its quality reaches the national standard and the relevant standard specified by the sewage treatment company which handles treated sewage for further treatment and discharge.

In addition, we have constructed a reservoir of more than 400 cubic metres to ensure that there is minimal discharge of sewage in the event of accidents.

We will continue to increase measures in condensation water retrieve system to reduce the discharge of waste water and municipal water consumption. In addition, the circulating water system is replaced by soft water to reduce the waste discharge of circulating water and frequency replacement.

Solid waste

Solid waste	2020	2019
Hazardous waste produced (tonnes)	153.0	139.0
Hazardous waste recycled (tonnes) (note)	153.0	139.0
Hazardous waste recycled percentage	100%	100%
Non-hazardous waste produced (tonnes)	189.2	136.4
Non-hazardous waste recycled (tonnes) (note)	189.2	136.4
Non-hazardous waste percentage	100%	100%

Note: According to relevant state regulations, hazardous wastes were transferred to and properly disposed by qualified organizations which are independent third party to the Group, whereas non-hazardous wastes were transferred to and properly disposed by councils of respective cities.

The scope of the above solid waste statistics includes data from Tai'an, Xuzhou and Vietnam production plants.

We generated solid waste during our production processes. Some of them are potentially hazardous, including waste activated carbon, potassium chloride, cashew nut oil sludge, sodium nitrate and sludge at the sewage treatment facilities. We have engaged qualified hazardous waste treatment companies to dispose such waste. In the course of production, we also generate sodium chloride as a by-product, which is principally sold to an industrial salt manufacturer in Tai'an, Shandong Province. Other domestic wastes are collected and disposed by environmental hygiene government departments. Non-hazardous domestic wastes are collected and disposed of by our environmental protection department.

During the year ended 31 December 2020, the hazardous waste and non-hazardous waste have increased as compared to the same period in the last year owing to the great increase in production capacity and volume.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the year ended 31 December 2020, the Group was not aware of any non-compliance with the applicable PRC environmental laws and regulations with regard to environmental protection. All of our products meet the relevant environmental requirements under the PRC laws and we were not subject to any fines or legal action involving material non-compliance with any relevant environmental regulation, nor were we aware of any threatened or pending action by any environmental regulatory authority during the year ended 31 December 2020. We have passed the inspection for the completion of environmental protection for our production plants as required by the applicable PRC laws and regulations.

We have also developed a series of internal policies and programs for environmental risk prevention to ensure compliance with the requirements of the applicable national, industrial and local standards, laws, regulations and policies. Such policies include report on the emission level of gas pollutants, waste water and solid waste to our environmental protection department and evaluation of such emission levels on a regular basis. If there is any deviation from the applicable emission standard, we will investigate the cause and will take rectification measures accordingly. Our discharge of waste water and solid waste and emission of gas pollutant is also monitored by the local environmental monitoring centre. During the year ended 31 December 2020, the discharge of each key pollutant remained within its respective prescribed regulatory limits.

We have obtained the certificate of GB/T24001-2016 idt ISO14001:2015 on 6 March 2017 for our environmental management system in the production of feed additives (including betaine and choline chloride), mixed feed additives and chemical products (including sodium periodate, diethyl sulfate, potassium iodide and sodium iodide) in our production plant in Tai'an, Shandong Province, which is valid until 5 March 2023.

Our environmental compliance expenses incurred for the years ended 31 December 2020 were approximately RMB1.3 million (2019: RMB0.8 million). Going forward, we expect our annual costs of compliance with applicable environmental matters in the near future will not experience significant changes, subject to any future changes in the applicable environmental laws and regulations which may arise.

In view of our measures to the waste materials as detailed above, our Directors believe that our business operations do not have a material adverse impact on the environment.

A2. Use of Resources

General disclosure and KPI

Energy consumption

Energy consumption	2020	2019
Electricity (MWh)	**35,593.3**	27,020.5
Coal (tonnes)	**5,234.6**	5,317.1
Coal (MWh)	**23,480.7**	23,967.1
Natural Gas ('000 m^3)	**2,650.3**	668.8
Natural Gas (MWh)	**24,654.1**	6,221.6
Steam (tonnes)	**103,799.5**	107,678.5
Steam (MWh)	**79,827.4**	82,810.6
Total Energy Consumption (MWh)	**163,555.5**	140,019.8
Energy Intensity (total energy consumption/M' RMB revenue derived from sales of self-manufactured chemicals)	**126.8**	121.2

The scope of the above energy consumption statistics includes data from Tai'an, Xuzhou and Vietnam production plants. The majority of the Group's energy consumption includes the electricity in all premises, the natural gas, coal and steam in the production plants.

In terms of electricity consumption, employees must follow the electricity management guidelines to avoid wastage. They are summarized as follows:

- Centralize production approach on major power-consuming equipment to reduce electricity consumption of each unit;
- Gradually switch to high efficiency and energy-saving facilities in operation areas;
- Carry out regular patrols and maintenance to ensure equipment's proper operation;
- Turn off idling machines;
- Report electricity consumption to the environmental audit team by the end of each month; and
- Encourage all departments to make new electricity-saving suggestions.

Moreover, we have elected to use model S11 energy-saving transformer, and transformer room and power room were designed to nearby substation to reduce line loss. Meanwhile, concentrated power factor compensation method was adopted to reduce reactive loss, resulting in the power factor after compensation of whole plant being more than 0.95.

To avoid the potential increase of electricity consumption by machines due to deterioration, the Group actively promote the use of high efficiency motors. During the year ended 31 December 2019, the Group has replaced model Y and YZ motors with more energy-efficient model Y and YXZ motors in the Tai'an and Vietnam production plants, resulting in a reduction of approximately 1-3% of energy consumption, compared to the original models.

Variable frequency drive system was used in electrical equipment with high power and load variation for increasing energy utilization rate, resulting in a reduction of approximately 8% of energy, compared to the original system.

Because of both the increase in production capacity and volume as well as the decrease in unit market price of our major self-manufactured products such as choline chloride, the energy intensity increased by approximately 4.6% as compared to the same period in the last year. We will optimize process route and unit operation, promote process equipment and adopt energy saving transformer and high efficiency motor to reduce energy consumption.

Water consumption

Water consumption	2020	2019
Water Consumption (m^3)	**353,966**	389,766
Water Intensity (water consumption/M' RMB revenue derived from sales of self-manufactured chemicals)	**274.4**	337.5

The scope of the above water consumption statistics includes data from Tai'an, Xuzhou and Vietnam production plants. The majority of the Group's water consumption includes the water consumed during the production process in the production plants.

The major reason for decrease in water consumption was that we adopt condensation water recycling method to reduce water consumption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group consumes a considerable amount of water during production and recognizes water as an important natural resource and hence, establishes water using guidelines for all premises to follow in order to efficiently utilize water resources. These include:

- Perform regular maintenance inspection to ensure that the machines do not drip;
- Notify maintenance department to repair immediately in case of discovered damage and leakage;
- Collect cleaning water used on-site to treat in the wastewater treating facility;
- Report water consumption and wastewater amount to the environmental audit team each month; and
- Encourage employees to actively participate in water-saving activities to increase water reduction awareness.

The main water source comes from the local government municipal department; therefore, there is no issue in sourcing water.

Because of both the increase in production capacity and volume as well as condensation water recycling method was adopted, the water consumption is effectively reduced and the water intensity decreased by approximately 18.7% as compared to the same period in the last year.

Packaging materials

Packaging material	2020	2019
Total Packaging Material (tonnes)	**2,667.0**	2,368.1
Amount of Recycled and Reused Package Material (tonnes)	**644.7**	68.7
Recycled and Reused Percentage	**24.2%**	2.9%

The scope of the above packaging materials statistics includes data from Tai'an, Xuzhou and Vietnam production plants.

The Group takes safety and environmental friendliness concerns into consideration when selecting packaging materials in order to focus on environmental protection while ensuring product safety. The packaging materials used in the Group's production plants are mainly paper material, plastic, wood and iron. The Group purchases reusable packaging materials for short-distance transportation of products within premises to avoid wasting resources and reduce waste generation. When packing products, in addition to following customers' and industrial requirements, the Group also ensures that the materials are durable. On one hand, this measure prevents any leakage of product. On the other hand, it considers that product quality will not be affected due to expiry during storage or hoarding.

A3. Environment and Natural Resources

General disclosure and KPI

Environmental impact management

The Group pursues the best practices in the environmental protection and focuses on the impact of the Group's businesses to the environment and natural resources. In addition to complying with relevant environmental laws and regulations as well as properly preserving the natural environment, the Group has integrated the concept of environmental protection into its internal management and daily operations, with the aim of achieving environmental sustainability.

The Group strives to promote environmental protection and make effective use of resources. It carries out continuous monitoring if the business operations incur any potential impact to the environment, and minimises such impact to the environment through promoting green office and operating environment by adopting four basic principles which are comprised of reduce, reuse, recycle and replacement. Where applicable, we adopt green purchasing strategies and the most practical technologies to protect our natural resources.

Noise pollution

The effective measures to strengthen fixed infrastructure, increase shock absorbers, install eliminate noise filters and isolate noise source equipments were adopted in Tai'an and Vietnam production plants to successfully prevent the noise pollution.

Outdoor lightings

The Group introduces light emitting diode high efficiency lighting products in Tai'an and Vietnam production plants to replace traditional low efficiency light source such as metal halide lamp, sunlight dysprosium lamp and high pressure sodium lamp, to save the power for lighting and establish high quality and effective lighting environment.

Landscape and natural habitat

All areas except buildings and roads in Xuzhou, Tai'an and Vietnam production plants are lined with green plants. The total green areas of the three production plants were 188 square meters, 8,963 square meters and 300 square meters, respectively.

B. SOCIETY

B1. Employment

General disclosure

Employee benefits and equal opportunities policies

Employees are regarded as the Group's largest and most valuable assets and the core of competitive advantage. They provide the driving force for continuous innovation to the Group.

During the year ended 31 December 2020, the Group has fully complied with relevant rules and regulations in the PRC, including the Company Law of the PRC, the Contract Law of the PRC, the Labor Contract Law of the PRC and the Regulations on Labor Inspection and Security, as well as the statutory requirements in Vietnam, including the Labour Code of 2012, which regulates the labour contract, internal labour regulations, occupational health and safety expatriates and statutory insurance.

The Group is committed to maintaining a diverse workforce that includes age, gender, family status, sexual orientation, disability, ethnicity, religion and equal opportunities.

The Group's "Employee Handbook" contains policies in regards to recruitment, promotion, discipline, working hours and leave. The human resources department has been responsible for ensuring all employees have fully understood the contents of the handbook.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The management regularly reviews the Group's remuneration and benefits policies in reference to the market standards and is committed to safeguarding the rights and interests of the staff. Remuneration and benefits have been adjusted on an annual basis or on special occasions in accordance with the employees' individual performance, contribution and market conditions.

	Number of employees		% of employees	
Employee category	**2020**	2019	**2020**	2019
Gender				
Male	**642**	651	**72.1%**	73.5%
Female	**248**	235	**27.9%**	26.5%
Position				
Senior Management	**9**	9	**1.0%**	1.0%
Management	**76**	72	**8.5%**	8.1%
Staff	**805**	805	**90.5%**	90.9%
Age				
18-30 years old	**199**	210	**22.4%**	23.7%
31-50 years old	**590**	576	**66.3%**	65.0%
51 years old or above	**101**	100	**11.3%**	11.3%
Location				
Shandong	**510**	494	**57.3%**	55.8%
Nanjing	**155**	163	**17.4%**	18.4%
Ho Chi Minh	**133**	124	**15.0%**	14.0%
Others	**92**	105	**10.3%**	11.8%
Total staff	**890**	886	**100.0%**	100.0%

Turnover rate	**2020**	2019
Senior Management	**0%**	0%
Management	**1.3%**	2.8%
Staff	**27.8%**	33.8%
The Group overall employee turnover rate	**24.0%**	30.9%

Note: Independent Non-executive Directors are not included in the statistics of the above tables.

During the year ended 31 December 2020, the overall employee turnover rate of the Group had decreased by approximately 6.9 percentage point as compared to the previous year, which is mainly due to the decrease in turnover rate in staff level contributed by our Tai'an and Vietnam production plants and it is considered as within a normal range since the turnover rate level of factory workers is generally higher. In order to ensure that daily operations are not affected by staff turnover, the human resources department is responsible to identify the reasons for employee turnover and maintain the turnover rate to avoid the operational disruption.

During the year ended 31 December 2020, the Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B2. Health and Safety

General disclosure

Occupational health and safety

The Group has always placed emphasis on occupational safety and has set up an occupational health and safety management system to provide a safe working environment for employees.

During the year ended 31 December 2020, the Group has complied with relevant rules and regulations in the PRC, including the Work Safety Law of the PRC and Occupational Disease Prevention and Control Law of the PRC, as well as the statutory requirements in Vietnam, including the Labour Code of 2012, which regulates the labour contract, internal labour regulations, occupational health and safety expatriates and statutory insurance.

We have implemented adequate safety measures across all premises in accordance with local fire and GB/T28001-2011 occupational health and safety management system, providing employees with a safe and secure workplace.

We have implemented a system of occupational health and safety measures. All of our production plants and employees are required to adhere to the principles of safety measures outlined by the safety protection department.

We have established a team of 18 employees as at 31 December 2020, to oversee safety management, among whom 12 have obtained the necessary qualification certificates issued by the relevant authorities, and are responsible for the management of production safety. We have also set up a system to ensure safe production. Under the system, we have defined clearly the responsibilities of each of the members in the team and the rules and procedures required for ensuring safety in our operations.

In order to maintain our production safety, the safety protection department conducts production safety checks regularly and investigation of any accidents during the production processes and keeps proper record of the production safety checks. In addition, regular safety production trainings are provided to our employees to keep them abreast of the Group's safety production guidelines and the measures taken during emergency.

In addition, we have implemented safety infrastructure and safety measures to ensure safety of our employees and properties, to prevent or minimise community exposure to hazardous materials, and to avoid exacerbation of natural hazards. We have also obtained a renewed certificate of compliance with FAMI-QS Code on 8 July 2020 for our feed safety management system with good manufacturing practice in our Tai'an production plant, which is valid until 7 July 2023 and a renewed certificate of GB/T22000-2006/ISO22000:2005 on 22 April 2019 for our feed safety management system in the production of feed additives and mixed feed additives in our Tai'an production plant, which is valid until 29 June 2021.

During the year ended 31 December 2020, the Group was not aware of any non-compliance with the health and safety laws and regulations.

During the year ended 31 December 2020, we did not have any major accidents, claims or complaints relating to work safety which had materially and adversely affected our operations (2019: nil). The number of lost days due to work injury was 601 days (2019: 71 days). The increase in number of lost days was mainly due to (i) traffic accidents occurred in the way to the factory, which is not under the control of our Company; and (ii) minor accidents during the manufacturing operation occurred. Our safety management team will continue to ensure safe production and improve our rules and procedures to ensure safety in our operations.

In respect of the safety protection matters, our expense incurred for the year ended 31 December 2020 was approximately RMB3.7 million (2019: RMB2.9 million). The increase in amount was due to the fact that there was an increasingly stricter safety requirements imposed by the government, we had undergone safety technical transformation in several production lines, as well as upgraded our fire protection system. We will continue to ensure our compliance with the applicable safety protection matters in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Furthermore, amid the COVID-20 pandemic, the Company has surveyed immediately, formulated plans and has elaborated and implemented various prevention and control measures to actively heeded to the government's calls. Office staff had worked remotely from home and online with the functions of online contract signature, order inquiry and logistics tracking provided by the application of GHW e-commerce system (金海威電商APP系統) upon full cooperation with government authorities to prevent and control the pandemic. The start of the new work model has ensured the procurement, sales and supply of important materials and raw materials even under the circumstances of a more severe situation and no personnel on the job. We strictly checked the staff's travel schedule, registered their daily health condition, disinfected office area and delivered epidemic prevention materials after return to the office. In addition, we started getting vaccines for our staffs. The Company will continue to strictly comply with the nation's various instructions, actively implement internal prevention and control, and fully cooperate with corresponding authorities to uphold our hygiene standard and minimise the impact to our business operations.

B3. Development and Training

General disclosure

Staff development and training

Employees are regarded as the Group's largest and most valuable assets and an essential part of maintaining a competitive advantage. The Group provides its staff with training courses for upgrading skills and development as needed.

The Group encourages and supports employees to participate in personal and professional training to fulfill the needs of emerging technologies and new equipment. The Group also encourages the culture of sharing of knowledge and experience.

The Group has made good use of its internal resources to organise various forms of training for employees in its offices in the PRC and Vietnam, including management, customer service and financial knowledge.

Our human resources department is responsible for organising and implementing the training plan for the employees of our Group. The training plan shall be designed with reference to the development of the Group and the employees' seniority. Specifically, we provide trainings including workplace safety, technology updates, management skills, corporate strategy planning, industry analysis, corporate loyalty, communication skills and technical skills. Trainings are conducted internally and externally and provided to new employees and current employees.

Overall training	2020	2019
Topics	**1. Workplace safety 2. Production technology 3. Management effectiveness and enhancement 4. Financial updates**	1. Workplace safety 2. Production technology 3. Management effectiveness and enhancement 4. Financial updates
Total hours of topics	**3,269**	2,720

Average training hours by employee category	2020	2019
Gender		
Male	**15**	14
Female	**17**	15
Position		
Senior Management	**48**	32
Management	**22**	36
Staff	**14**	13

B4. Labour Standards

General disclosure

Prevention of child labor or forced labor

The Group strictly prohibits employing any child labor or forced labor in its operations. The Group has established a well-defined recruitment process which examines the background of candidates and a formal reporting procedure for handling any exception. During the recruitment process, the age of the applicant is verified against the identity documents of the applicant. In addition, the Group conducts regular reviews and inspections to prevent any child labor or forced labor in operation.

The Group encourages employees to get off work on time to ensure adequate resting time. According to the "Employee handbook", employees could work overtime only on a voluntary basis. If any forced labor behavior is discovered, the management would intervene to cease the infringement actions, and make reasonable compensation to the relevant employee. During the year ended 31 December 2020, the Group was not aware of any child labor or forced labor cases.

In the meantime, the Group also avoids engaging suppliers which are already known to be employing child labor or forced labor in their operations. The Group has complied with the Abolition of Forced Labor Convention with respect to Employment of Workers, the Labor Law of the PRC on the Employment of Adolescents under the Age of 16 and their Legal Rights and Interests and Provisions on Prohibition of Child Labor in the PRC.

During the year ended 31 December 2020, the Group complied with all the laws and regulations relating to the prevention of child labor or forced labor. The Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

B5. Supply Chain Management

General disclosure

Environmental and social risk management of supply chain

The Group has established and implemented relevant policies for supplier management. In order to strengthen the selection of suppliers, the Group welcomes qualified, competent and high-quality suppliers to join. The Group's procurement department has specially formulated this policy in order to standardise the supplier management and improve the operational standard.

The Group's procurement department is also responsible for organising the supplier evaluation work in two ways which include the ongoing project evaluation and the annual assessment. The evaluation results will serve as the basis of supplier management. Suppliers need to react quickly to the assessment result, taking effective measures to improve the services provided within prescribed period. The Group has the rights to terminate the cooperation with service providers who violate the rules or do not meet the targets.

To ensure the quality of raw materials and chemicals produced by third party, each of our potential suppliers has to pass our assessment before they are included in our list of approved suppliers. We select the suppliers based on various factors including but not limited to their market reputation, scale, quality, pricing of products and their business relationship with us. Our procurement department conducts background checks of the potential suppliers before any sales transactions and evaluates the existing suppliers annually based on various factors such as quality and stability of the supply of raw materials, payment terms, delivery timeliness, quality of customer services. The assessment results will be used as a benchmark for the continuation or termination of cooperation in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the year ended 31 December 2020, we obtained raw materials and chemicals produced by third party from suppliers based in various regions and countries including but not limited to the PRC, Japan, South Korea, Taiwan, Europe and the United States for our production and sales of polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates. The type of suppliers primarily includes chemicals manufacturers. As at the date of this report, we have established the business relationship with some of our five largest suppliers for more than five years. We are generally granted credit terms of up to approximately 90 days. We closely monitor the quality of the raw materials and chemicals produced by third parties provided by our suppliers. All raw materials and chemicals produced by third parties provided by our suppliers have to comply with the incoming quality control requirements.

The Group maintains close liaison with its suppliers to monitor their performance to ensure that it is consistent with their service commitment.

Suppliers geographical distribution	Number of suppliers		% of suppliers	
	2020	2019	**2020**	2019
The PRC	**639**	556	**89.9%**	88.8%
Vietnam	**41**	41	**5.8%**	6.5%
Asia (other than the PRC and Vietnam)	**15**	24	**2.1%**	3.8%
Others	**16**	5	**2.2%**	0.9%

B6. Product Responsibility

General disclosure

Product Responsibility

We believe that strict quality control is essential for us to maintain sustainable growth in the chemicals industry. Accordingly, we have implemented a quality control system for each stage in the production processes of polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical intermediates. It is our policy to purchase raw materials from qualified and reputable suppliers. We have the quality control guidelines and conduct quality checks from supply of raw materials and chemicals produced by third parties to manufacturing and finished products testing to ensure that the quality of our products meet our customers' expectations.

As at 31 December 2020, our quality control department, which consists of 27 employees in the PRC (with an average of approximately 10 years of experience in implementing quality control measures, 19 of whom have obtained certification in quality control of chemicals and/or chemical safety and 4 of whom are currently practicing as pharmacists in the PRC) and 7 employees in Vietnam, is responsible for overseeing and maintaining the quality control of our production processes and the chemicals produced by third party manufacturers including pharmaceutical products. We also provide regular internal and external training programmes to our quality control personnel in order to standardise our quality control procedures.

Our quality management and control systems generally cover the following:

- Incoming quality control: When raw materials and chemicals produced by third party manufacturers are delivered to our warehouses, our quality control personnel will perform sample testing to ensure that the quality of the raw materials and chemicals produced by third party manufacturers meet our chemical quality requirements and specifications before they are accepted. If the sampled raw materials do not meet our standards, we either return any sub-standard raw materials and chemicals produced by third parties to our suppliers or (in the case of minor deviation from our standards), use such raw materials under the strict control and supervision of the quality control department.

- In-process quality control: We conduct quality inspections throughout the key production stages to ensure that our work-in-progress comply with the required standard. Unqualified work in progress are not allowed to enter the next phase of production and will be reported to our production department so that any reworking procedures can be carried out to rectify any quality issues.

- Outgoing quality control: We have established testing guidelines setting out the testing procedures and requirements for each batch of our finished products to ensure their specifications comply with the national and industry standards before despatching to our customers. These testing guidelines are reviewed and updated from time to time. Our testing procedures include checking the physical appearance and that other chemical indicators are satisfied.

To facilitate close monitoring of our operations and ensure consistency of quality, we hold monthly quality review meetings where, under the overall supervision of our quality control department, various departments are required to prepare detailed reports on relevant issues and concerns discovered during their regular quality checks.

We value our customers' feedback on product quality as we believe this will help us further improve our products and sustain long-term business relationship with our customers. We have designated a sales representative for each customer to make sure that we obtain and handle our customers' feedback in a timely manner. All customer complaints are handled by our quality control department in accordance with the internal customer complaints handling procedures, which involve discussion with the relevant departments and follow up with the customer directly in order to resolve any quality issues in a timely and effective manner.

During the year ended 31 December 2020, we did not receive any complaints or dissatisfaction with the products and services according to the customers' feedback on product quality.

We have received several certifications in connection with our quality management system, food safety management system, feed safety management system, environmental management system and laboratory accreditation in relation to our production.

Product warranty

We generally give customers warranty terms in relation to product quality of up to seven days from the date of delivery of our products. We have adopted an internal policy to handle the claims or complaints from customers for defects of our products. Upon receipt of any claims or complaints from our customers within this period, we make internal investigations to understand the matter in this regard. If we find that we are responsible for the defects, we will negotiate with our customers by offering sales compensation such as exchanging the products, providing discount or price reduction in subsequent sales. The amount and nature of compensation are determined on a case-by-case basis. In the event that our products are damaged during the delivery and transportation process, we claim against our insurers for any losses incurred due to such product damages according to our arrangements with these insurers. For the years ended 31 December 2020, we claimed approximately RMB30,330 (2019: RMB30,000) against our insurers for product damages resulted from the delivery and transportation process which contributed to our sales compensation for defective products.

During the year ended 31 December 2020, we did not experience any material disputes with our customers, any material claim relating to our product liability or return of goods in relation to the quality of our products that had a material and adverse impact on our business, and did not record any large-scale product recall due to quality defects.

Protecting Intellectual Property Rights

The Group's day-to-day operations involve the use of the intellectual property owned by customers, suppliers or the Group itself. Therefore, the protection of intellectual property rights is an extremely important task for the Group. When the Group engages with its customers or suppliers, it will include the protection of intellectual property in the contractual terms. The Group's legal department also reviews all the contracts in operation and ensure that the contractual terms protect both parties' intellectual property rights. The Group also requires technical professionals to sign strict confidentiality agreements. Confidential information of our customers is only accessible to employees who are responsible for the corresponding project.

During the year ended 31 December 2020, the Group complied with relevant laws and regulations governing the confidentiality of data and intellectual property, including but not limited to Patent Law of the PRC, Trademark Law of the PRC and Copyright Law of the PRC.

During the year ended 31 December 2020, the Group was not aware of any non-compliance with relevant laws and regulations relating to product responsibility.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Safeguarding Customer Privacy

The Group respects the privacy of each stakeholder. When negotiating with suppliers, customers or partners, the Group signs a confidentiality agreement to safeguard the interests of all parties. In addition, the Group also requires all employees to collect only the necessary personal or commercial information from customers and carefully process the information to ensure that the information is not leaked.

During the year ended 31 December 2020, the Group was not aware of any leaking of customer privacy.

B7. Anti-Corruption

General disclosure

Prevention of corruption and fraud

Preventive measures, enforcement and monitoring

The Group has implemented the relevant policies and stipulated in the "Employee Handbook", strengthening its internal control mechanism, anti-corruption and anti-bribery work so as to achieve the business philosophy of "abiding by the law, integrity and quality service".

Reporting mechanism

The mechanism includes the establishment of an inspection team and the establishment of a channel for evaluation and reporting. It is strictly forbidden to use the business opportunities or powers to obtain personal interests or benefits. If there is a conflict of interest, it needs to be reported to the management of the Group on a timely basis. The Group also encourages employees and all persons with whom the Group does business, including customers and suppliers, to report the suspected wrongdoing within the Group voluntarily.

The Group has complied with major relevant laws and regulations including the Corruption Ordinance of the PRC.

During the year ended 31 December 2020, the Group was not aware of any non-compliance with relevant laws and regulations relating to anti-corruption.

B8. Community Investment

General disclosure

Contributions to society

As a responsible company, the Group actively strives to become a positive force in the community and maintains close communication and interaction with the community to contribute to community development.

The Group enhances the quality of life of community through arts, culture and entertainment using on demand systems and activities. Following the development of culture, the community can gain a deeper understanding of history and culture and cultivate higher appreciation of the present and future cultural activities and to a greater level of enjoyment.

The Group will also actively encourage employees to contribute their time and skills to community volunteer works to benefit local communities by giving them opportunities to learn more about social and environmental issues and enhance the corporate value of the Group.

As a moral and responsible enterprise, the Group will consider from time to time to make donations to charities when the Group records after-tax profits and has sufficient funds.

During the year ended 31 December 2020, the Group has funded a total of approximately RMB200,000 (2019: RMB881,000 to The Community Chest and charity parties in the PRC).

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF GHW INTERNATIONAL
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of GHW International (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 76 to 140, which comprise the consolidated statement of financial position of the Group as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are the matters those, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment and right-of-use assets	
We identified impairment assessment of property, plant and equipment and right-of-use assets as a key audit matter due to its significance to the consolidated financial statements as a whole, and significant judgement and estimation involved in determining whether impairment indicator exists of any cash generating unit ("CGU"), and significant estimation uncertainty involved in the determination of the recoverable amounts of the CGUs. As detailed in note 4, the consolidated financial statements, the carrying amount of the property, plant and equipment and right-of-use assets subject to impairment assessment were RMB29,352,000 and RMB4,595,000 respectively. The impairment assessment was based on a value in use calculation that required significant estimation with respect to the underlying cash flows and discount rate. Key estimates involved in the preparation of cash flow projections include the discount rates and the growth rate. No impairment loss was recognised by the management of the Group during the year ended 31 December 2020 as the result of the impairment assessment.	Our procedures in relation to the impairment assessment on property, plant and equipment and right-of-use assets included: • Understanding the management process in assessing for any impairment of property, plant and equipment and right-of-use assets; • Evaluating the management's processes in identifying impairment indicator of property, plant and equipment and right-of-use assets based on the financial information of the CGUs; • Evaluating the appropriateness of the valuation model used by the management to calculate the recoverable amount; • Checking the mathematical accuracy of the value in use calculation; • Evaluating the historical accuracy of the financial budgets prepared by management by comparing the historical financial budgets with the actual performance and understanding the causes for any significant variances; and • Evaluating, with the assistance of our internal fair value specialists, the reasonableness of the key inputs in the valuation model, including growth rates in revenue, estimated gross profit, discount rate and terminal growth rate by with reference to the historical results of the CGU, and available industry and market data.

KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matter
Impairment of trade receivables	
As at 31 December 2020, the Group has trade receivables amounting to RMB158,031,000, net of allowance amounting to RMB8,152,000. Management judgement and estimations are required to assess and determine the recoverability of trade receivables and adequacy of allowance made using the expected credit losses ("ECL") model under IFRS 9 *Financial Instruments*. These judgements include estimating and evaluating expected future receipts from customers based on the Group's historical default rates taking into consideration forward-looking information that is reasonable, supportable and available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. The key assumptions and estimation on allowance for ECL and the Group's credit risk management are disclosed in notes 4 and 37 to the consolidated financial statements, and further information related to trade receivables is provided in note 18 to the consolidated financial statements.	Our procedures in relation to the impairment assessment on trade receivables included: • Obtaining an understanding of the relevant key controls over the assessment and monitoring of credit risks, and determination of allowance for ECL; • Evaluating the model used by management in determining the allowance for ECL; • Testing the integrity of information used by management to develop the internal credit rating, including trade receivables aging analysis as at 31 December 2020, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents; • Challenging management's basis and judgement in determining allowance for ECL on trade receivables as at 31 December 2020, including their identification of credit-impaired trade receivables that are assessed individually, the reasonableness of management's grouping of the remaining trade debtors into different categories in the internal credit rating, and the basis of estimated loss rates applied in each category in the internal credit rating (with reference to historical default rates and forward-looking information); and • Obtaining confirmations and evidences of subsequent settlements on a sample basis for trade receivable balances.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine the matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Cheung, Wilfred.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Year ended 31 December	
		2020	2019
		RMB'000	RMB'000
Revenue	5	**2,103,882**	1,966,055
Cost of sales		**(1,830,612)**	(1,720,352)
Gross profit		**273,270**	245,703
Other income	6	**7,564**	5,948
Other gains and losses	6	**(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	7	**(26,258)**	(16,681)
(Loss) profit before taxation	8	**(6,642)**	31,846
Taxation	9	**1,467**	(2,739)
(Loss) profit for the year		**(5,175)**	29,107
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)	12	**(0.005)**	0.039
- Diluted (RMB per share)	12	**(0.005)**	NA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	13	**273,876**	212,592
Right-of-use assets	14	**54,701**	58,216
Rental deposits		**667**	626
Finance lease receivable	15	**—**	452
Deferred tax assets	16	**1,575**	475
Prepayment for acquisition of an intangible asset		**650**	—
		331,469	272,361
Current assets			
Inventories	17	**196,760**	166,797
Finance lease receivable	15	**477**	477
Trade receivables	18	**158,031**	161,426
Bill receivables at FVTOCI	19	**45,821**	54,802
Other receivables and prepayments	21	**49,903**	54,347
Amounts due from immediate holding companies	22	**—**	70
Tax recoverable		**275**	427
Financial asset at fair value through profit or loss ("FVTPL")	23	**653**	—
Derivative financial instruments	23	**4,025**	—
Restricted bank deposits	24	**172,429**	108,816
Bank balances and cash	24	**61,906**	35,716
		690,280	582,878
Current liabilities			
Trade and bill payables	25	**162,156**	154,912
Other payables and accrued charges	26	**61,664**	53,024
Lease liabilities	27	**4,529**	5,712
Contract liabilities	28	**18,836**	13,370
Amount due to a shareholder	22	**—**	5
Tax liabilities		**883**	2,395
Borrowings	29	**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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
Non-current liabilities			
Borrowings	29	**83,265**	189,510
Loans from a related company	22	**81,435**	—
Lease liabilities	27	**4,838**	6,193
Deferred tax liabilities	16	**472**	1,769
		170,010	197,472
Net assets		**205,495**	114,562
Capital and Reserves			
Share capital	30	**8,844**	9
Reserves		**196,651**	114,553
Total equity		**205,495**	114,562

The consolidated financial statements on pages 76 to 140 were approved and authorised for issue by the board of directors on 26 March 2021 and are signed on its behalf by:

YIN YANBIN
DIRECTOR

CHEN ZHAOHUI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note a)	Safety reserve RMB'000 (Note b)	Translation reserve RMB'000	Statutory reserve RMB'000 (Note c)	FVTOCI reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2019	69	—	56,568	—	(4,960)	35,044	—	2,273	88,994
Profit for the year	—	—	—	—	—	—	—	29,107	29,107
Other comprehensive expense for the year	—	—	—	—	(3,167)	—	(372)	—	(3,539)
Total comprehensive (expense) income for the year	—	—	—	—	(3,167)	—	(372)	29,107	25,568
Effect of re-denomination of shares (note 30)	(60)	—	60	—	—	—	—	—	—
Transfer to safety reserve	—	—	—	1,459	—	—	—	(1,459)	—
Appropriation	—	—	—	—	—	2,267	—	(2,267)	—
At 31 December 2019	**9**	**—**	**56,628**	**1,459**	**(8,127)**	**37,311**	**(372)**	**27,654**	**114,562**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(5,175)**	**(5,175)**
Other comprehensive income for the year	**—**	**—**	**—**	**—**	**6,878**	**—**	**171**	**—**	**7,049**
Total comprehensive income (expense) for the year	**—**	**—**	**—**	**—**	**6,878**	**—**	**171**	**(5,175)**	**1,874**
Issue of shares upon Capitalisation Issue (note 30)	**6,624**	**(6,624)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Issue of shares upon initial public offering (note 30)	**2,211**	**110,546**	**—**	**—**	**—**	**—**	**—**	**—**	**112,757**
Transaction cost attributable to issue of new shares	**—**	**(25,703)**	**—**	**—**	**—**	**—**	**—**	**—**	**(25,703)**
Deemed contribution from a shareholder (note 22)	**—**	**—**	**2,005**	**—**	**—**	**—**	**—**	**—**	**2,005**
Transfer to safety reserve	**—**	**—**	**—**	**1,174**	**—**	**—**	**—**	**(1,174)**	**—**
Appropriation	**—**	**—**	**—**	**—**	**—**	**8,902**	**—**	**(8,902)**	**—**
At 31 December 2020	**8,844**	**78,219**	**58,633**	**2,633**	**(1,249)**	**46,213**	**(201)**	**12,403**	**205,495**

Note a: Capital reserve represented (i) the capital injection from owners of Nanjing Goldenhighway International Supply Chain Management Company Limited ("GHW International SCM"), a subsidiary of the Company, in excess of nominal value of share capital amounting to RMB26,071,000 prior to reorganisation; (ii) contribution from shareholders net of capital gain tax related to reorganisation amounting to RMB28,336,000; (iii) acquisition of additional interest in Taian Havay Group Co., Ltd., a subsidiary of the Company, related to reorganisation amounting to RMB1,717,000; (iv) deemed contribution from a shareholder in relation to a waiver of amount due to a shareholder amounting to RMB444,000; (v) effect of re-denominating the par value of the Company's shares amounting to RMB60,000; and (vi) deemed contribution from a shareholder in relation to loans from a related company controlled by Mr. Yin Yanbin amounting to RMB2,005,000.

Note b: Pursuant to the relevant regulation in the People's Republic of China (the "PRC"), two PRC subsidiaries of the Company (together with its subsidiaries collectively referred as the "Group") are required to provide for safety reserve based on annual sales amount. The reserve can be used for improvements of safety storage and production process, and eligible to be transferred to retained earnings upon utilisation.

Note c: As stipulated by the relevant laws in the PRC, the PRC subsidiaries are required to maintain a statutory reserve fund. The minimum transfer to statutory reserve is 10% of profit after tax of the PRC subsidiaries according to the PRC subsidiaries' statutory financial statements. No appropriation is required if the balance of the statutory reserve has reached 50% of the registered capital of the PRC subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(6,642)**	31,846
Adjustments for:		
Finance costs	**26,258**	16,681
Bank interest income	**(3,283)**	(403)
Fair value changes on derivative financial instruments	**(2,039)**	—
Interest income on finance lease receivable	**(38)**	(28)
Depreciation of property, plant and equipment and right-of-use assets	**9,479**	9,703
Write-down of inventories	**840**	1,116
Impairment losses under expected credit loss model, net of reversal	**1,009**	(59)
Losses on disposals of plant and equipment	**3,487**	33
Gain on sublease of right-of-use assets	**—**	(275)
Gain on termination of lease contracts	**(87)**	—
Net foreign exchange losses (gains)	**9,829**	(3,667)
Operating profit before movements in working capital	**38,813**	54,947
(Increase) decrease in inventories	**(9,169)**	13,184
Decrease (increase) in trade receivables	**2,386**	(10,795)
Decrease (increase) in bill receivables at FVTOCI	**9,188**	(41,644)
(Increase) decrease in other receivables and prepayments	**(2,565)**	5,773
Increase in derivative financial instruments	**(2,206)**	—
Increase in trade and bill payables	**7,244**	1,604
Increase in other payables and accrued charges	**5,450**	1,790
Increase in contract liabilities	**5,466**	1,468
Cash generated from operation	**54,607**	26,327
Income tax paid	**(2,353)**	(6,131)
NET CASH FROM OPERATING ACTIVITIES	**52,254**	20,196

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
INVESTING ACTIVITIES		
Interest received	**1,239**	403
Prepayment for acquisition of an intangible asset	**(650)**	—
Proceeds on disposals of property, plant and equipment	**529**	346
Purchases of property, plant and equipment	**(88,088)**	(57,366)
Upfront payments for right-for-use assets	**—**	(29,827)
Withdrawal of deposit for acquisition of land use right	**—**	15,790
Payments for rental deposits	**(41)**	(514)
Withdrawal of restricted bank deposits	**108,816**	25,850
Placements of restricted bank deposits	**(172,429)**	(108,816)
Purchase of financial asset at FVTPL	**(689)**	—
Proceeds from finance lease receivable	**490**	245
Repayments from immediate holding companies	**70**	—
NET CASH USED IN INVESTING ACTIVITIES	**(150,753)**	(153,889)
FINANCING ACTIVITIES		
Dividend paid	**(1,800)**	(54,659)
Proceeds on issue of shares upon initial public offering	**112,757**	—
Issue costs paid	**(18,516)**	(3,591)
Interest paid	**(25,893)**	(16,966)
Repayments of lease liabilities	**(5,545)**	(4,436)
Repayments of bank loans	**(514,800)**	(290,301)
New bank loans raised	**496,661**	592,860
Loans from a related company	**99,600**	—
Repayments to a related company	**(16,600)**	—
Repayments to shareholders/a former shareholder	**(5)**	(83,666)
NET CASH FROM FINANCING ACTIVITIES	**125,859**	139,241
NET INCREASE IN CASH AND CASH EQUIVALENTS	**27,360**	5,548
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**35,716**	30,261
Effects of foreign exchange rate change	**(1,170)**	(93)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**61,906**	35,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL

GHW International (the "Company") 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 are listed on the Stock Exchange with effect from 21 January 2020. The controlling shareholders of the Company are Mr. Yin Yanbin and Ms. Wu Hailing, the spouse of Mr. Yin Yanbin. 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 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. Details of the subsidiaries are disclosed in note 39.

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

2. APPLICATION OF AMENDMENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("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 International Accounting Standards Board ("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.

2. APPLICATION OF AMENDMENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

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 of the Company 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by 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 Governing the Listing of Securities on the Main Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

The directors of the Company 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, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation of consolidated financial statements (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based payment*, leasing transactions that are within the scope of IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Basis of consolidation (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group's revenue primarily arises from manufacture and sale of chemical related products and medicine, which is recognised at a point in time when the control of goods has transferred, i.e. when the goods have been delivered to customers.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

Definition of a lease (Continued)

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) when the lease term has changed by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease liabilities are presented as separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use assets. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessor (Continued)

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets which, are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Payments to the defined contribution retirement benefit plan, Hong Kong's Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contribution.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "(loss) profit before taxation" because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes other than properties under construction as described below. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customer which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial assets or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial assets or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(i) Amortised cost and effective interest method

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in other comprehensive income ("OCI") and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, bill receivables at FVTOCI, rental deposits, other receivables, amounts due from immediate holding companies, restricted bank deposits and bank balances) and finance lease receivable, which is subject to impairment assessment under IFRS 9. The amount of ECL is updated at the reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, twelve-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within twelve months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to debtors, general economic conditions and an assessment of both the current condition at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and finance lease receivable.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

(i) Significant increase in credit risk - continued

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a debt to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g.when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over five years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

(v) Measurement and recognition of ECL (Continued)

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for bill receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account. For bill receivables that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these receivables. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets (Continued)

On derecognition of bill receivables classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including borrowings, trade and bill payables, other payables, dividend payables, amounts due to a shareholder and loans from a related company are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4. KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, which are described in note 3, management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash generating unit to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts. Furthermore, the cash flows projections, growth rate and discount rate are subject to greater uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions in the certain of the Group's production plants.

During the year ended 31 December 2020, the operation of a Vietnam subsidiary suffered a loss, mainly due to insufficient utilisation of production capacity triggered by the Covid-19 pandemic. As at 31 December 2020, the carrying amounts of property, plant and equipment and right-of-use assets subject to impairment assessment were RMB29,352,000 and RMB4,595,000 respectively. No impairment loss was recognised by the management of the Group during the year ended 31 December 2020 as the result of the impairment assessment. Details of the impairment assessment of property, plant and equipment and right-of-use assets are disclosed in notes 13 and 14 respectively.

Estimated impairment of trade receivables

The Group recognises lifetime ECL for trade receivables, using internal credit rating based on the Group's historical default rates, as groupings of various debtors that have similar loss patterns. These judgements and estimations include estimating and evaluating expected future receipts from customers based on historical observed default rates over the expected life of the debtors and adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with credit-impaired are assessed for ECL individually. As at 31 December 2020, the carrying amount of trade receivables is RMB158,031,000 (2019: RMB161,426,000), net of allowance for credit losses of RMB8,152,000 (2019: RMB7,808,000). The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTIES (Continued)

Write-down of inventories to net realisable value

The Group performs regular review of the carrying amounts of inventories to determine whether any write-down of inventories to net realisable values is required after considering, inter alia, ageing analysis of the Group's inventories and subsequent sales made and materials used. Write-down of inventories will be made when the estimated net realisable values of inventories decline below their carrying amounts. Net realisable value of inventories is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. These estimates are made with reference to the current market conditions and the historical experience of manufacturing and selling products of a similar nature. Actual future selling prices and sale ability/usage of goods/materials might be different from estimations and profit or loss could be affected by differences in the estimations. As at 31 December 2020, the carrying amount of inventories for the Group is RMB196,760,000 (2019: RMB166,797,000), net of allowance for inventories of RMB616,000 (2019: RMB1,129,000).

5. 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 of the Company, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

5. REVENUE AND SEGMENT INFORMATION (Continued)

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 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. 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 ("U.S.$") foreign currency future contracts respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

7. 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

8. (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 (note 10)	**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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

9. 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, and 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 (note 16)	**(2,433)**	775
Total	**(1,467)**	2,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

9. TAXATION (Continued)

The taxation for the year can be reconciled to the (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(Loss) profit before taxation	**(6,642)**	31,846
Tax at PRC enterprise income tax rate of 25%	**(1,661)**	7,962
Tax effect of expenses not deductible for tax purpose	**5,100**	669
Tax effect of income not taxable for tax purpose	**(178)**	(2,308)
Tax effect of tax losses not recognised	**4,311**	2,986
Utilisation of tax losses previously not recognised	**(524)**	(204)
Additional deduction of research and development expenses	**(7,870)**	(2,950)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,348)**	(574)
Income tax at concessionary rates	**527**	(1,496)
Tax effect of deductible temporary differences not recognised	**448**	229
Utilisation of deductible temporary differences previously not recognised	**(355)**	(608)
Under (over) provision in prior years	**83**	(967)
Taxation for the year	**(1,467)**	2,739

As at 31 December 2020, the carrying amount of unrecognised deductible temporary differences was RMB9,845,000 (2019: RMB9,473,000), while tax losses not recognised was RMB61,756,000 (2019: RMB49,180,000). In the opinion of the directors of the Company, no deferred tax assets are recognised due to the unpredictability of future profit streams. Such unrecognised losses for the Group entities will expire in various years up to and including 2021, 2022, 2023, 2024 and 2025.

10. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive officer's emoluments

Name	Position	Date of appointment as the directors of the Company
Mr. Yin Yanbin	Executive director and chief executive officer	25 April 2018
Mr. Zhuang Zhaohui	Executive director	25 April 2018
Mr. Chen Zhaohui	Executive director	25 April 2018
Mr. Zhou Chunnian	Executive director	25 April 2018
Mr. Chen Hua	Executive director	25 April 2018
Mr. Sun Guibin	Executive director	25 April 2018
Ms. Zheng Qing	Independent non-executive director	16 December 2019
Mr. Sun Hongbin	Independent non-executive director	16 December 2019
Mr. Wang Guangji	Independent non-executive director	16 December 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

10. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' and chief executive officer's emoluments (Continued)

Details of the emoluments paid or payable to the directors of the Company for their service rendered are as follows:

	Directors' fee RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000 (note)	Retirement benefits RMB'000	Total RMB'000
For the year ended 31 December 2020					
Executive directors					
Mr. Yin Yanbin	—	864	420	49	1,333
Mr. Zhuang Zhaohui	—	603	78	46	727
Mr. Chen Zhaohui	—	490	78	46	614
Mr. Zhou Chunnian	—	428	78	46	552
Mr. Chen Hua	—	401	78	46	525
Mr. Sun Guibin	—	360	78	46	484
Sub-total	—	3,146	810	279	4,235
Independent non-executive directors					
Ms. Zheng Qing	91	—	—	—	91
Mr. Sun Hongbin	91	—	—	—	91
Mr. Wang Guangji	91	—	—	—	91
Sub-total	273	—	—	—	273
Total					4,508

10. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' and chief executive officer's emoluments (Continued)

	Directors' fee RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000 (note)	Retirement benefits RMB'000	Total RMB'000
For the year ended 31 December 2019					
Executive directors					
Mr. Yin Yanbin	—	960	420	89	1,469
Mr. Zhuang Zhaohui	—	588	78	83	749
Mr. Chen Zhaohui	—	504	78	83	665
Mr. Zhou Chunnian	—	432	78	83	593
Mr. Chen Hua	—	402	78	83	563
Mr. Sun Guibin	—	360	78	83	521
Sub-total	—	3,246	810	504	4,560
Independent non-executive directors					
Ms. Zheng Qing	—	—	—	—	—
Mr. Sun Hongbin	—	—	—	—	—
Mr. Wang Guangji	—	—	—	—	—
Sub-total	—	—	—	—	—
Total					4,560

Note: The discretionary bonuses are determined with reference to the Group's and individual performance.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

During both years, no remuneration was paid by the Group to the directors and the chief executive officer of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any remuneration during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

10. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

Four (2019: four) of the highest paid individuals' were directors of the Company and their emoluments were disclosed in (a) above. The emoluments of the remaining highest paid individual during the year were as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	1,248	898
Discretionary bonus (note)	—	75
Retirement benefits	16	16
	1,264	989

Note: Discretionary bonus is determined based on their duties and responsibilities of the relevant individuals within the Group and the Group's performance.

The number of the highest paid employee who is not directors nor the chief executive officer of the Company has his emoluments within the following band:

	2020	2019
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	1	—
	1	1

During both years, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. DIVIDENDS

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.

12. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (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 30) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery RMB'000	Buildings, properties and structures RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2019	117,127	80,868	3,392	5,850	13,873	13,538	234,648
Additions	1,958	1,166	1,939	218	4,576	50,813	60,670
Transfers	52,647	3,853	—	146	118	(56,764)	—
Disposals	(663)	—	(372)	(72)	(2,007)	—	(3,114)
Exchange adjustment	643	643	(51)	(12)	56	41	1,320
At 31 December 2019	171,712	86,530	4,908	6,130	16,616	7,628	293,524
Additions	4,165	2,043	599	514	5,047	80,851	93,219
Transfers	46,942	920	—	366	—	(48,228)	—
Disposals	(6,499)	(10)	(238)	(31)	(1,451)	—	(8,229)
Exchange adjustment	(2,214)	(1,728)	(6)	(77)	(439)	(124)	(4,588)
At 31 December 2020	**214,106**	**87,755**	**5,263**	**6,902**	**19,773**	**40,127**	**373,926**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2019	(34,597)	(13,163)	(2,802)	(3,697)	(8,384)	—	(62,643)
Provided for the year	(13,586)	(3,913)	(789)	(662)	(1,767)	—	(20,717)
Eliminated on disposals	390	—	372	66	1,907	—	2,735
Exchange adjustment	(177)	(136)	24	9	(27)	—	(307)
At 31 December 2019	(47,970)	(17,212)	(3,195)	(4,284)	(8,271)	—	(80,932)
Provided for the year	(16,698)	(3,987)	(913)	(731)	(2,331)	—	(24,660)
Eliminated on disposals	2,901	6	238	22	1,046	—	4,213
Exchange adjustment	677	397	6	38	211	—	1,329
At 31 December 2020	**(61,090)**	**(20,796)**	**(3,864)**	**(4,955)**	**(9,345)**	**—**	**(100,050)**
CARRYING AMOUNTS							
At 31 December 2020	153,016	66,959	1,399	1,947	10,428	40,127	273,876
At 31 December 2019	**123,742**	**69,318**	**1,713**	**1,846**	**8,345**	**7,628**	**212,592**

As at 31 December 2020, the factory buildings located in Xuzhou, the PRC, with total net carrying amounts of RMB716,000 (2019: RMB802,000), have no certificate of and ownership.

As at 31 December 2020, the Group's buildings, properties and structures with net book values of RMB7,032,000, RMB715,000 and RMB9,168,000 (2019: RMB8,106,000, RMB985,000 and RMB10,360,000) were located in Vietnam, Ukraine and Hong Kong, respectively. The remaining buildings, properties and structures were located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for construction in progress, are depreciated after taking into account the estimated residual value on a straight-line basis at the following rates per annum:

Plant and machinery	9.5%
Buildings, properties and structures	Shorter of lease terms or useful lives
Leasehold improvements	Shorter of lease terms or useful lives
Office equipment	10.0% to 20.0%
Motor vehicles	16.7% to 23.8%

As at 31 December 2020, the Group has pledged buildings, plant and machinery and motor vehicles with a total net book value of RMB45,753,000 (2019: RMB8,106,000) to secure general banking and other facilities granted to the Group.

For the purposes of impairment testing, certain property, plant and equipment and right-of-use assets in Vietnam subsidiary of RMB29,352,000 and RMB4,595,000 respectively with impairment indicators have been allocated to an individual CGU. Since the recoverable amount exceeds the carrying amounts, no impairment loss for property, plant and equipment and right-of-use assets has been recognised as at 31 December 2020.

The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarised below.

The recoverable amount of this CGU is determined based on its value in use, and assessed by the management of the Group based on valuation performed by the Group. The calculation uses cash flow projections based on the financial budgets approved by the directors of the Company covering the following five-year period, and pre-tax discount rate of 12.2% that is determined by the weighted average cost of capital plus specific risk premium for the CGU, which is within level 3 fair value hierarchy. The cash flows beyond the five-year period are extrapolated using a terminal growth rate of 0% per annum. This growth rate is determined based on the management expectation about long term economic growth in Vietnam. Other key assumptions relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin generated from the CGU, is determined based on the past performance of the CGU and management's expectations on the market development.

14. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Buildings RMB'000	Total RMB'000
As at 31 December 2020 Carrying amount	**46,309**	**8,392**	**54,701**
As at 31 December 2019 Carrying amount	**47,504**	**10,712**	**58,216**
For the year ended 31 December 2020 Depreciation charge	**(1,011)**	**(5,413)**	**(6,424)**
For the year ended 31 December 2019 Depreciation charge	**(465)**	**(5,017)**	**(5,482)**

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14. RIGHT-OF-USE ASSETS (Continued)

	Year ended 31 December	
	2020 **RMB'000**	2019 RMB'000
Total cash outflow for leases	**5,960**	34,521
Additions to right-of-use assets	**4,998**	38,427

As at 31 December 2020, the Group has pledged leasehold land with a net book value of RMB46,309,000 (2019: RMB17,727,000) to secure general banking facilities granted to the Group.

For both years, the Group leases various offices, warehouses and parking spaces for its operations. Lease contracts are entered into for fixed term of 2 month to 70 months. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

For the purposes of impairment testing, certain right-of-use assets have been allocated to an individual CGU with impairment indicator. As at 31 December 2020, the carrying amounts of right-of-use assets relating to that CGU are RMB4,595,000. No impairment loss for the right-of-use assets has been recognised as at 31 December 2020. Details are set out in note 13.

15. FINANCE LEASE RECEIVABLE

In July 2019, the Group, as a lessor, subleased an office premise to an independent third party. The lease period of the sublease is 30 months, which is the same as the remaining contract lease term of the head lease, and the sublease is thus classified as a finance lease ("Sublease Arrangement"). The interest rate inherent in the lease is fixed at the contract date over the lease terms.

For the year ended 31 December 2020, the finance lease receivable arising from Sublease Arrangement are set out below.

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2020 **RMB'000**	31/12/2019 RMB'000	**31/12/2020** **RMB'000**	31/12/2019 RMB'000
Finance lease receivable comprise:				
Within one year	**490**	490	**477**	477
In the second year	**—**	490	**—**	452
	490	980	**477**	929
Gross investment in the lease	**490**	980	**N/A**	N/A
Less: unearned finance income	**(13)**	(51)	**N/A**	N/A
Present value of minimum lease payment receivables	**477**	929	**477**	929
Analysis as:				
Current	**490**	490	**477**	477
Non-current	**—**	490	**—**	452
	490	980	**477**	929

15. FINANCE LEASE RECEIVABLE (Continued)

Interest rates implicit in the above finance lease is 5.5% (2019: 5.5%).

The Group is not exposed to foreign currency risk as a result of the lease arrangement, as the lease was denominated in the respective functional currency of group entity.

Details of impairment assessment are set out in note 37.

16. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Deferred tax assets	**1,575**	475
Deferred tax liabilities	**(472)**	(1,769)
	1,103	(1,294)

The followings are the major deferred tax liability and assets recognised and movement thereon during the current and prior year:

	Accelerated tax depreciation RMB'000	ECL provision RMB'000	Tax losses RMB'000	Fair value adjustment on bill receivables at FVTOCI RMB'000	Total RMB'000
At 1 January 2019	(1,335)	744	—	—	(591)
(Charge) credit to profit or loss	(810)	35	—	—	(775)
Credit to other comprehensive income	—	—	—	72	72
At 31 December 2019	(2,145)	779	—	72	(1,294)
Credit to profit or loss	1,673	116	644	—	2,433
Charge to other comprehensive income	—	—	—	(36)	(36)
At 31 December 2020	**(472)**	**895**	**644**	**36**	**1,103**

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to RMB68 million (2019: RMB74 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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17. INVENTORIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Raw materials and consumables	**61,183**	46,522
Work in progress	**22,668**	18,245
Finished goods	**112,909**	102,030
	196,760	166,797

Included in the above figures are finished goods of RMB4,996,000 (2019: nil) which have been pledged as security for other loan.

18. 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.

18. TRADE RECEIVABLES (Continued)

The Group applied internal credit rating for its customers. The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables
Group A	The counter party has a low risk of default based on historical repayment records and has a good reputation	Lifetime ECL - not credit-impaired
Group B	The counter parties, which are hospitals, have higher creditability but sometimes repays in full after due dates	Lifetime ECL - not credit-impaired
Group C	The counter party usually settles in full after due day with a higher risk of default	Lifetime ECL - not credit-impaired
Group D	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired
Group E	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on a collective basis within lifetime ECL (not credit-impaired). As at 31 December 2020, the debtors with credit-impaired amounted to RMB1,400,000 (2019: RMB890,000) are assessed individually, and the rest of debtors amounted to RMB164,783,000 (2019: RMB168,344,000) are assessed grouped by internal credit rating.

Gross carrying amount

Internal credit rating	Average loss rate 2020	Average loss rate 2019	Trade receivables As at 31 December 2020 RMB'000	Trade receivables As at 31 December 2019 RMB'000
Group A	**1.92%**	1.90%	**121,378**	125,157
Group B	**1.92%**	1.90%	**14,777**	12,432
Group C	**14.43%**	13.98%	**28,628**	30,755
			164,783	168,344

The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

As at 31 December 2020, included in the Group's trade receivables balance within Group A, B and C are debtors with aggregate carrying amount of RMB21,830,000 (2019: RMB21,611,000) which are past due as at the reporting date. Out of the past due balances, RMB1,527,000 (2019: RMB2,736,000) has been past due 90 days or more and is not considered as in default. In the opinion of the directors of the Company, the trade receivables within Group A, B and C at the end of the reporting period which have been past due over 90 days are not considered as in default by considering the historical and expected subsequent repayment from the trade debtors.

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18. TRADE RECEIVABLES (Continued)

Gross carrying amount (Continued)

Movement in the allowance for impairment of trade receivables:

	Lifetime ECL (not credit - impaired) RMB'000	Lifetime ECL (credit - impaired) RMB'000
As at 1 January 2019	7,203	799
Changes due to financial instruments recognised as at 1 January 2019:		
– Transfer to credit-impaired	(25)	25
– Impairment losses recognised	—	201
– Impairment losses reversed (note)	(7,076)	—
– Amounts written off as uncollectible	—	(135)
New financial assets originated	6,816	—
As at 31 December 2019	6,918	890
Changes due to financial instruments recognised as at 1 January 2020:		
– Transfer to credit-impaired	(23)	23
– Impairment losses recognised	—	1,152
– Impairment losses reversed (note)	(6,524)	—
– Amounts written off as uncollectible	—	(665)
New financial assets originated	6,381	—
As at 31 December 2020	**6,752**	**1,400**

Note: The reversal of loss allowance are mainly due to settlement in full by trade debtors with a gross carrying amount of RMB167,963,000 (2019: RMB157,418,000).

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 RMB'000	2019 RMB'000
U.S.$	**20,991**	24,794
EUR	**588**	—
	21,579	24,794

19. BILL RECEIVABLES AT FVTOCI

	As at 31 December	
	2020 **RMB'000**	2019 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 **RMB'000**	2019 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.

20. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2020 and 2019, the Group has discounted bank issued bill receivables to banks or transferred bank issued bill receivables to its suppliers to settle its payables through endorsing the bank issued bills to its suppliers. The Group has limited exposure in respect of the settlement obligation of these bank issued bill receivables under the relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the risk of non-settlement by the issuing banks with good credit quality on maturity is insignificant. In the opinion of the directors of the Company, the Group transferred and did not retain substantially all the risks and rewards of ownership of this part of bank issued bills. Accordingly, the Group has derecognised this part of bank issued bill receivables and the payables to the suppliers in their entirety.

As at 31 December 2020, the Group's maximum exposure to loss, which is the same as the amount payables by the Group to banks or the suppliers in respect of the discounted bank issued bills and endorsed bank issued bills, should the issuing banks fail to settle the bills on maturity, amounted to RMB42,831,000 and RMB199,820,000 (2019: RMB51,327,000 and RMB104,845,000), respectively.

For the part of transferred bank issued bills that were not derecognised as the Group has not transferred the significant risks and rewards relating to these receivables, the Group continued to recognise the remaining part of bank issued bills and has recognised the cash received on the transfer as a collateralised borrowing. These financial assets are recognised as bill receivables at FVTOCI in the consolidated financial statements. As at 31 December 2020, the carrying amounts of these transferred bank issued bills were RMB42,831,000 (2019: RMB51,327,000), which were the same as the carrying amounts of associated liabilities.

All the bank issued bill receivables discounted to banks or endorsed to suppliers of the Group have a maturity date of less than one year from the end of the reporting period.

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21. OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Prepayments for materials	**23,945**	19,166
Deferred and prepaid expenses	**10,681**	11,646
PRC value added tax recoverable	**8,530**	9,791
Deposits paid to suppliers	**3,660**	2,124
Interest receivables	**2,044**	—
Advance to staff	**935**	1,141
Deferred issue costs	**—**	9,053
Other receivables	**108**	1,426
	49,903	54,347

As at 31 December 2020, carrying amount of other receivables amounted to RMB322,000 (2019: nil) have been pledged as security for the Group's borrowing.

22. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANIES/AMOUNT DUE TO A SHAREHOLDER/ LOANS FROM A RELATED COMPANY

Amounts due from immediate holding companies

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Commonwealth B Limited	**—**	36
Commonwealth GHW Limited	**—**	17
Commonwealth Happy Elephant Limited	**—**	16
Commonwealth Feibear Limited	**—**	1
	—	70

Amount due to a shareholder

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Mr. Yin Yanbin	**—**	5

The amount are non-trade nature, unsecured, interest-free and repayable on demand.

22. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANIES/AMOUNT DUE TO A SHAREHOLDER/ LOANS FROM A RELATED COMPANY (Continued)

Loans from a related company

	As at 31 December	
	2020 **RMB'000**	2019 RMB'000
Nanjing Hanhe Enterprises Co., Ltd.	**81,435**	—

During the year ended 31 December 2020, the Group entered into a facilities agreement with Nanjing Hanhe Enterprises Co., Ltd ("Hanhe Enterprises"), a related company controlled by Mr. Yin Yanbin, pursuant to which Hanhe Enterprises agreed to provide facilities to the Group in an aggregate principal amount of up to RMB110,000,000. As at 31 December 2020, an aggregate principal amount of RMB83,000,000 has been utilised and repayable in 2022.

The loans from the aforesaid related company carried at fixed interest rate of 1.8% per annum and repayable in 2 years from the respective dates of the withdrawal. The amounts were measured at amortised cost using the effective interest method with an effective interest rate of 3% per annum at initial recognition date, which resulted in a deemed contribution from a shareholder of RMB2,005,000.

23. FINANCIAL ASSET AT FVTPL/DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2020 **RMB'000**	2019 RMB'000
Financial asset at FVTPL:		
Structured investment product (note 1)	**653**	—
Derivative financial instruments:		
Commodity derivative contracts (note 2)	**4,025**	—

Note:

1. Structured investment product is a short-term investment issued by a financial institution with no predetermined or guaranteed return and not principal protected. The financial asset is with expected rates of return (not guaranteed), depending on the market price of underlying financial instruments, including bonds, debentures and other financial assets.

2. Commodity derivative contracts entered into by the Group for the purpose of reducing its exposure to commodity price risk in the operation, are not accounted for under hedge accounting.

24. BANK BALANCES AND CASH AND RESTRICTED BANK DEPOSITS

Bank balances carry interest at market rates which range from 0.01% to 0.30% (2019: 0.05% to 0.30%) per annum.

Restricted bank deposits represent the deposits pledged to banks for securing short-term banking facilities granted to the Group and are therefore classified as current assets. The restricted bank deposits carry interest at market rates which range from 0.01% to 2.80% (2019: 0.30% to 2.80%) per annum.

The Group's bank balances and cash 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 **RMB'000**	2019 RMB'000
U.S.$	**20,162**	3,887
Others	**569**	1,319
	20,731	5,206

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25. 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
U.S.$	**22,270**	20,682
EUR	**—**	425
	22,270	21,107

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26. OTHER PAYABLES AND ACCRUED CHARGES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Payables for property, plant and equipment	**21,359**	16,228
Payables for freight charge and storage fee	**17,211**	10,063
Accrued salaries and welfare expenses	**10,957**	9,120
PRC value-added tax payable and other tax payables	**5,462**	4,528
Accrued repair and maintenance expenses	**33**	134
Advance from staff	**26**	132
Listing expenses and issue costs payable	**—**	7,834
Others	**6,616**	4,985
	61,664	53,024

27. LEASE LIABILITIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Lease liabilities payable:		
Within one year	**4,529**	5,712
Within a period of more than one year, but not more than two years	**2,338**	2,450
Within a period of more than two years, but not more than five years	**2,500**	3,743
Present value of lease liabilities	**9,367**	11,905
Less: Amounts due for settlement within 12 months shown under current liabilities	**4,529**	5,712
Amounts due for settlement after 12 months shown under non-current liabilities	**4,838**	6,193

The weighted average incremental borrowing rates applied to lease liabilities was 5.5% (2019: 5.5%).

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28. CONTRACT LIABILITIES

As at 1 January 2019, contract liabilities amounted to RMB11,902,000.

The amounts represent advance payments from customers for goods. The amounts of RMB13,370,000 (2019: RMB11,902,000) that represented the entire contract liabilities balances at the beginning of the respective years, were recognised as revenue during the year.

The Group generally offer 100% credit term for customers with long-term relationship and request deposit of 40% to 100% on acceptance of orders for customers accessed to be of lower creditability.

29. BORROWINGS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Secured bank loans (note)	**309,378**	265,083
Unsecured bank loans	**170,777**	236,414
Other loans	**1,286**	—
	481,441	501,497
The carrying amounts of the above borrowings are repayable based on scheduled repayment terms:		
Within one year	**398,176**	311,987
More than one year but not more than two years	**82,286**	2,800
More than two years but not more than five years	**—**	186,710
More than five years	**979**	—
	481,441	501,497
Less: Amounts shown under non-current liabilities	**83,265**	189,510
Amounts shown under current liabilities	**398,176**	311,987

Note: The Group's borrowings were guaranteed by the related parties and shareholders of the Group and secured by assets of the Group as detailed in notes 13, 14, 19, 24, 34 and 35. The guarantees from related parties were fully released in 2020.

Analysis as followings:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Fixed-rate borrowings	**461,441**	454,938
Variable-rate borrowings	**20,000**	46,559
	481,441	501,497

29. BORROWINGS (Continued)

The ranges of effective interest rates per annum on the Group's borrowings are as follows:

	As at 31 December	
	2020	2019
Effective interest rate:		
Variable-rate borrowings	**4.7%-5.7%**	4.7%-7.8%
Fixed-rate borrowings	**0%-8.6%**	3.0%-8.6%

Borrowings that are denominated in foreign currencies other than the functional currencies of the relevant group entities are as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
RMB	**70,729**	70,710
U.S.$	**8,901**	11,273

30. SHARE CAPITAL

On 3 January 2019, for the purpose of redenomination of shares of the Company from U.S.$ 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 U.S.$10,000 (the "Subscription Price"); (c) repurchased all the old shares for an aggregate price of U.S.$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 U.S.$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).

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30. SHARE CAPITAL (Continued)

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

	Number of Shares	Amount U.S.$
Ordinary shares of U.S.$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

31. SHARE OPTION SCHEME

On 16 December 2019, the share option scheme of the Company (the "Share Option Scheme") is conditionally approved and adopted by a resolution in writing passed by the shareholders of the Company.

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The directors of the Company consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to grant options to any full-time or part-time employees, non-executive directors, suppliers, customers shareholders, consultants and advisors of the Company, any of its subsidiaries and any entity which, in the opinion of the board of directors of the Company, have contributed to the Group to subscribe for shares in the Company.

The subscription price per share under the Share Option Scheme shall be determined at the discretion of the directors of the Company, provided that it shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Share.

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

An offer for the grant of options must be accepted within 21 days inclusive of the day on which such offer was made. The nominal consideration HK$1 will be paid by the grantee of an option to the Company on acceptance of the offer.

Unless otherwise determined by the directors of the Company and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue on the day on which dealings in the shares first commence on the Stock Exchange (i.e. not exceeding 100,000,000 shares).

No share options have been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption.

32. RETIREMENT BENEFITS SCHEMES

The employees of the PRC subsidiaries are members of state-managed retirement benefits schemes operated by the local PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

The Group also participates in the Mandatory Provident Fund Scheme for all employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes a certain percentage of the relevant payroll costs to the scheme, which contribution is matched by the employee.

For the year ended 31 December 2020, the total expense recognised in profit or loss of RMB6,175,000 (2019: RMB9,753,000) represents contributions paid to these schemes by the Group at rates specified in the rules of the schemes. As at end of the reporting period, there was no outstanding contributions payable to the schemes.

There is no statutory requirement to operate any retirement benefit schemes in other jurisdictions.

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FOR THE YEAR ENDED 31 DECEMBER 2020

33. CAPITAL COMMITMENTS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	**34,135**	4,163

34. RELATED PARTY TRANSACTIONS

During both years, other than those disclosed in elsewhere in the consolidated financial statements, the Group had the following significant transactions with related companies:

Provision of guarantees and security by related parties of the Group

Certain related parties of the Group have provided guarantees and assets security to banks to support facilities granted by those banks to the Group as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Assets security		
Organic Chemicals Co. (defined as below) (note)	**—**	10,000
Provision of guarantee		
Mr. Yin Yanbin	**—**	10,000
Ms. Wu Hailing	**—**	10,000
	—	20,000

Note: Nanjing Organic Chemicals Co., Ltd. ("Organic Chemicals Co.") is under common control of certain shareholders of the Group and directors of the Company.

Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the year was as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Short-term benefits	**5,920**	5,474
Post-employment benefits	**354**	626
	6,274	6,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

35. PLEDGE OF ASSETS

At the end of the reporting period, assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Restricted bank deposits	**172,429**	108,816
Right-of-use assets	**46,309**	17,727
Property, plant and equipment	**45,753**	8,106
Bill receivables at FVTOCI	**42,831**	51,327
Inventories	**4,996**	—
Trade receivables	**2,475**	—
Bank balances	**658**	—
Other receivables and prepayments	**322**	—
	315,773	185,976

36. CAPITAL RISK MANAGEMENT

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 owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt balance, which includes the borrowings, lease liabilities, loans from a related company and amount due to a shareholder, net of cash and cash equivalents, and equity balances. Equity balance consists of equity attributable to owners of the Company, comprising share capital, share premium, capital reserve, safety reserve, translation reserve, statutory reserve and retained earnings.

The management of the Group reviews the capital structure on an on-going annual basis. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

37. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Financial assets		
At amortised cost	**399,780**	312,274
At FVTOCI	**45,821**	54,802
At FVTPL	**653**	—
Derivative financial instruments	**4,025**	—
	450,279	367,076
Financial liabilities		
At amortised cost	**768,205**	697,456
Lease liabilities	**9,367**	11,905

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies

The Group's major financial instruments include restricted bank deposits, bank balances and cash, trade receivables, bill receivables at FVTOCI, other receivables, amounts due from immediate holding companies, financial asset at FVTPL, rental deposits, finance lease receivable, trade and bill payables, other payables, dividend payables, borrowings, amount due to a shareholder, loans from a related company, lease liabilities and derivative financial instruments. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to currency risk and interest rate risk. There has been no change in the Group's exposure to these risk or the manner in which it manages and measure the risks.

(i) Currency risk

Certain bank balances and cash, trade receivables, trade and bill payables, and borrowings 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.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are mainly as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Assets		
U.S.$	**41,153**	28,681
RMB	**49**	1,200
Liabilities		
U.S.$	**31,171**	31,955
RMB	**70,729**	70,710

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on a 5% increase/decrease in functional currency of respective group entities against the relevant foreign currencies. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in the Group's post-tax loss (2019: increase in the Group's post-tax profit), where functional currency of respective group entities had strengthened 5% against the relevant foreign currency. For a 5% (2019: 5%) weakening of functional currency of respective group entities against the relevant foreign currency, there would be an equal and opposite impact on the profit or loss for the year.

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Decrease in the Group's post-tax loss		
(2019: increase in the Group's post-tax profit)		
– if functional currency of the relevant group		
entities denominated in RMB strengthens against U.S.$	**(473)**	192
– if functional currency of the relevant group entities		
denominated in U.S.$ strengthen against RMB	**3,534**	3,476

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk for certain financial assets, financial liabilities, including fixed-rate bank deposits, fixed-rate borrowings, loans from a related company, finance lease receivable 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, including bank balances, restricted bank deposits and variable-rate borrowings, which carried interests at variable interest rates.

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.

Sensitivity analysis

No sensitivity analysis for the interest rate exposure of bank balances, restricted bank deposits and variable-rate borrowings was presented as the management of the Group considers that the interest rate fluctuation is not significant.

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 is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of the reporting period.

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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 the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group performs impairment assessment under ECL model on trade receivables. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has applied the simplified approach to measure the loss allowance on trade receivables at lifetime ECL as disclosed in note 18.

The credit risk on bill receivables at FVTOCI 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 for the year ended 31 December 2020.

For other receivables, rental deposits and finance lease receivable with gross carrying amounts of RMB6,747,000, RMB667,000 and RMB477,000 (2019: RMB4,691,000, RMB626,000 and RMB929,000), respectively, as at 31 December 2020, management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of these 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 receivables, rental deposits and finance lease receivable.

The Group have 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 ECL is insignificant.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk

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.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	On demand or within 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2020							
Non-derivative financial liabilities:							
Trade and bill payables	—	162,156	—	—	—	162,156	162,156
Borrowings							
– fixed rate	3.66	388,352	84,694	—	1,089	474,135	461,441
– variable rate	5.00	20,547	—	—	—	20,547	20,000
Other payables	—	43,173	—	—	—	43,173	43,173
Loans from a related company	1.80	1,631	83,884	—	—	85,515	81,435
Lease liabilities	5.50	4,641	2,542	2,948	—	10,131	9,367
		620,500	171,120	2,948	1,089	795,657	777,572
At 31 December 2019							
Non-derivative financial liabilities:							
Trade and bill payables	—	154,912	—	—	—	154,912	154,912
Borrowings							
– fixed rate	4.20	291,196	7,902	180,781	—	479,879	454,938
– variable rate	5.05	37,174	1,797	9,840	—	48,811	46,559
Other payables	—	39,242	—	—	—	39,242	39,242
Amount due to a shareholder	—	5	—	—	—	5	5
Dividend payables	—	1,800	—	—	—	1,800	1,800
Lease liabilities	5.50	5,853	2,645	4,530	—	13,028	11,905
		530,182	12,344	195,151	—	737,677	709,361

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Fair value measurement of financial instruments

The following provides information about how the Group determines fair value of various financial assets.

(i) Fair value measurement of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair values at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

	Fair value as at 31 December			
Unobservable	2020	2019	Fair value hierarchy	Valuation techniques and key inputs
Commodity derivative contracts	RMB4,025,000	—	Level 1	Quoted bid prices in NYMEX Future Exchange.
Structured investment products	RMB653,000	—	Level 2	Based on the net asset values of the fund, which is determined with reference to observable and quoted prices of underlying investment portfolio and adjustments of related expenses.
Bill receivables at FVTOCI	RMB45,821,000	RMB54,802,000	Level 2	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the bill receivables

(ii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group considers that the carrying amounts of the financial assets and financial liabilities of the Group recorded at amortised cost in the consolidated financial statements at the end of the reporting period approximate their fair values.

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

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38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Loans from a related company RMB'000	Amounts due to shareholders/ former shareholders RMB'000	Borrowings RMB'000	Dividend payables RMB'000	Accrued issue costs RMB'000	Accrued interest RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2019	—	83,604	198,357	56,459	2,204	575	8,829	350,028
Financing cash flows	—	(83,666)	302,559	(54,659)	(3,591)	(16,708)	(4,694)	139,241
Interest expenses	—	—	—	—	—	16,360	321	16,681
Exchange adjustment	—	67	581	—	—	—	—	648
Accrued issue costs	—	—	—	—	3,253	—	—	3,253
Inception of leases	—	—	—	—	—	—	8,600	8,600
Termination of lease contracts	—	—	—	—	—	—	(1,151)	(1,151)
At 31 December 2019	**—**	**5**	**501,497**	**1,800**	**1,866**	**227**	**11,905**	**517,300**
Financing cash flows	**82,363**	**(5)**	**(18,139)**	**(1,800)**	**(18,516)**	**(24,841)**	**(5,960)**	**13,102**
Interest expenses	**1,214**	**—**	**—**	**—**	**—**	**24,629**	**415**	**26,258**
Exchange adjustment	**—**	**—**	**(1,917)**	**—**	**—**	**—**	**—**	**(1,917)**
Deemed contribution from a shareholder	**(2,005)**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,005)**
Reclassification of accrued interest	**(137)**	**—**	**—**	**—**	**—**	**137**	**—**	**—**
Accrued issue costs	**—**	**—**	**—**	**—**	**16,650**	**—**	**—**	**16,650**
Inception of leases	**—**	**—**	**—**	**—**	**—**	**—**	**4,998**	**4,998**
Termination of lease contracts	**—**	**—**	**—**	**—**	**—**	**—**	**(1,991)**	**(1,991)**
At 31 December 2020	**81,435**	**—**	**481,441**	**—**	**—**	**152**	**9,367**	**572,395**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are as follows:

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid share capital/ paid in capital	Equity interest attributable to the Company as at 31 December 2020	2019	Principal activities
Directly held						
GOHI Int'L Limited	British Virgin Islands ("BVI") 28 May 2018	BVI	U.S.$10,000	**100%**	100%	Investment holding
Indirectly held						
GHW Holdings Limited	Hong Kong 25 June 2018	Hong Kong	HK$1	**100%**	100%	Investment holding
GHW International SCM	The PRC 18 November 2008	The PRC	RMB73,031,800	**100%**	100%	Trading of chemical products
南京金海威化工實業有限公司 Nanjing Goldenhighway Chemicals Co., Ltd.	The PRC 25 October 1995	The PRC	RMB40,000,000	**100%**	100%	Trading of chemical products
南京金海威國際投資有限公司 Nanjing Goldenhighway Investment Co., Ltd.	The PRC 13 January 2005	The PRC	RMB10,000,000	**100%**	100%	Investment holding
南京瀚商微搜電子商務有限公司 Nanjing Hanshang Weisou Electronic Commerce Co., Ltd.	The PRC 14 January 2016	The PRC	RMB1,000,000	**100%**	100%	Provision of E-commerce service
張家港保税區海金沙國際貿易有限公司 Zhangjiagang Free Trade Zone Haijinsha International Trading Co., Ltd.	The PRC 30 March 2012	The PRC	RMB2,000,000	**100%**	100%	Trading of chemical products
武漢金潤泰化工有限公司 Wuhan Jinruntai Chemicals Co., Ltd.	The PRC 16 February 2011	The PRC	RMB1,000,000	**100%**	100%	Trading of chemical products
南京天宇運輸有限公司 Nanjing Tianyu Transportation Co., Ltd.	The PRC 7 May 1999	The PRC	RMB3,000,000	**100%**	100%	Trading of chemical products
廣州金海威貿易有限公司 Guangzhou Goldenhighway Trading Co., Ltd.	The PRC 22 January 2010	The PRC	RMB2,000,000	**100%**	100%	Trading of chemical products
泰安岳達物流有限公司 Taian Yueda Logistics Co., Ltd.	The PRC 24 October 2016	The PRC	RMB10,000,000	**100%**	100%	Provision of delivery service
金海威(越南)責任有限公司 GHW (Vietnam) Co., Ltd.	Vietnam 23 July 2013	Vietnam	U.S.$10,000,000	**100%**	100%	Manufacture and sale of chemical products
金海威(越南)化工責任有限公司 GHW (Vietnam) Chemicals Limited Company	Vietnam 7 May 2014	Vietnam	U.S.$300,000	**100%**	100%	Trading of chemical products

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39. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid share capital/ paid in capital	Equity interest attributable to the Company as at 31 December 2020	2019	Principal activities
Golden Highway International (Hong Kong) Limited	Hong Kong 6 August 2008	Hong Kong	HK$19,987,364	**100%**	100%	Trading of chemical products
GHW USA LLC	USA 17 March 2015	USA	U.S.$20,000	**100%**	100%	Trading of chemical products
GHW Eurochemicals s.r.o.	Slovakia 1 January 2014	Slovakia	EUR5,000	**100%**	100%	Trading of chemical products
Goldray International Enterprises Co., Ltd.	Seychelles 7 January 2016	Seychelles	U.S.$1	**100%**	100%	Trading of chemical products
Nuovomondo Chemicals Private Limited	India 25 March 2011	India	Indian Rupee 100,000	**100%**	100%	Trading of chemical products
Star International Saint-Petersburg LLC	Russia 26 March 2007	Russia	Russian Ruble 2,281,591	**100%**	100%	Trading of chemical products
Ukrhimformacia Limited Company	Ukraine 27 April 2006	Ukraine	Ukrainian Hryvnia 7,329,110	**100%**	100%	Trading of chemical products
Havay Industry Inc.	Canada 23 September 2015	Canada	Canadian Dollar 1,000	**100%**	100%	Trading of chemical products
Golden Highway Mexico, S. De R.L. De C.V.	Mexico 10 September 2018	Mexico	U.S.$49,470	**100%**	100%	Trading of chemical products
江蘇省信諾醫藥對外貿易有限公司 Jiangsu Xinnuo Pharmaceutical Trading Co., Ltd.	The PRC 5 January 1998	The PRC	RMB30,000,000	**100%**	100%	Trading of chemical and pharmaceutical products
泰安漢威集團有限公司 Taian Havay Group Co., Ltd.	The PRC 9 November 2010	The PRC	RMB100,000,000	**100%**	100%	Manufacture and sale of chemical products
徐州漢威飼料有限公司 Xuzhou Havay Feeds Co., Ltd.	The PRC 23 July 2003	The PRC	RMB10,000,000	**100%**	100%	Manufacture and sale of chemical products

All subsidiaries now comprising the Group are limited liability companies. None of the subsidiaries had issued any debt securities at the end of the year.

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40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position of the Company at the end of the reporting period includes:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Non-current asset		
Investment in a subsidiary	**2,074**	69
Current assets		
Deferred issue costs	**—**	9,053
Amounts due from shareholders	**—**	70
Amount due from a subsidiary	**86,191**	—
Bank balances and cash	**156**	12
	86,347	9,135
Current liabilities		
Other payables	**—**	7,839
Amounts due to subsidiaries	**65**	19,846
	65	27,685
Net current assets (liabilities)	**86,282**	(18,550)
Net assets (liabilities)	**88,356**	(18,481)
Capital and reserves		
Share capital	**8,844**	9
Reserves	**79,512**	(18,490)
	88,356	(18,481)

Movement in reserves

	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2019	—	—	(7,458)	(7,458)
Loss and total comprehensive expense for the year	—	—	(11,092)	(11,092)
Effect of re-denomination of shares	—	60	—	60
At 31 December 2019	—	60	(18,550)	(18,490)
Profit and total comprehensive income for the year	—	—	17,778	17,778
Issue of shares upon Capitalisation Issue (note 30)	(6,624)	—	—	(6,624)
Issue of shares upon initial public offering (note 30)	110,546	—	—	110,546
Transaction cost attributable to issue of new shares	(25,703)	—	—	(25,703)
Deemed contribution from a shareholder (note 22)	—	2,005	—	2,005
At 31 December 2020	**78,219**	**2,065**	**(772)**	**79,512**

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41. EVENTS AFTER THE REPORTING PERIOD

On 7 February 2021, Taian Havay Group Co., Ltd., GHW International SCM, two subsidiaries of the Company, and Mr. Yin Yanbin entered into a subscription agreement and a supplemental agreement (collectively referred to as the "Agreements") with 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. Pursuant to the Agreements, Taian Havay Group Co., Ltd. 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 semi-annually 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 price calculated on the same basis 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.