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GHW International

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9933)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

FINANCIAL HIGHLIGHTS

- For the six months ended 30 June 2021, revenue of the Group amounted to approximately RMB1,185.8 million, representing an increase of approximately RMB293.0 million or 32.8% comparing with the corresponding period in 2020.
- For the six months ended 30 June 2021, gross profit of the Group amounted to approximately RMB173.8 million, representing an increase of approximately RMB53.3 million or 44.2% comparing with the corresponding period in 2020.
- For the six months ended 30 June 2021, net profit of the Group amounted to approximately RMB27.0 million, comparing with net loss amounted to approximately RMB0.7 million in the corresponding period in 2020.
- For the six months ended 30 June 2021, basic earnings per share of the Group amounted to approximately RMB0.027, comparing with basic loss per share of the Group amounted to approximately RMB0.0007 in the corresponding period in 2020.
- The Board has resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2021.

The board (the “**Board**”) of directors (the “**Director(s)**”) of GHW International (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2021 together with the comparative figures for the six months ended 30 June 2020 as follows.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021	2020
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	1,185,834	892,787
Cost of sales		(1,012,033)	(772,249)
Gross profit		173,801	120,538
Other income	5	6,881	2,989
Other gains and losses	5	(4,067)	1,248
Impairment losses under expected credit loss model, net of reversal		(1,966)	(797)
Selling and distribution expenses		(63,511)	(54,434)
Administrative expenses		(45,162)	(39,384)
Research and development expenses		(21,558)	(16,778)
Finance costs		(12,994)	(13,688)
Profit (loss) before taxation	6	31,424	(306)
Taxation	7	(4,389)	(389)
Profit (loss) for the period		<u>27,035</u>	<u>(695)</u>

	Six months ended 30 June	
Note	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other comprehensive income (expense)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation of foreign operations	1,838	(1,498)
Fair value loss on bill receivables at fair value through other comprehensive income (“FVTOCI”)	(185)	(127)
Income tax relating to an item that may be reclassified subsequently to profit or loss	28	14
Other comprehensive income (expense) for the period, net of income tax	1,681	(1,611)
Total comprehensive income (expense) for the period	28,716	(2,306)
Profit (loss) for the period attributable to owners of the Company	27,035	(695)
Total comprehensive income (expense) attributable to owners of the Company	28,716	(2,306)
Earnings (loss) per share		
– Basic (RMB per share)	9 0.027	(0.0007)
– Diluted (RMB per share)	9 N/A	(0.0007)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	As at	
Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Non-current assets		
Property, plant and equipment	320,147	273,876
Right-of-use assets	52,827	54,701
Rental deposits	646	667
Deferred tax assets	1,598	1,575
Prepayment for acquisition of an intangible asset	—	650
	375,218	331,469
Current assets		
Inventories	281,318	196,760
Finance lease receivable	239	477
Trade receivables	10 172,758	158,031
Bill receivables at FVTOCI	11 52,633	45,821
Other receivables and prepayments	82,324	49,903
Tax recoverable	210	275
Financial assets at fair value through profit or loss ("FVTPL")	1,054	653
Derivative financial instruments	1,823	4,025
Restricted bank deposits	102,098	172,429
Bank balances and cash	69,058	61,906
	763,515	690,280

		As at	
		30 June	31 December
	Notes	2021	2020
		RMB'000	RMB'000
		(Unaudited)	(Audited)
Current liabilities			
Trade and bill payables	12	186,571	162,156
Other payables and accrued charges		53,126	61,664
Lease liabilities		3,820	4,529
Contract liabilities		26,628	18,836
Tax payables		4,147	883
Borrowings		332,755	398,176
Loans from a related company		10,600	—
		617,647	646,244
Net current assets		145,868	44,036
Total assets less current liabilities		521,086	375,505
Non-current liabilities			
Borrowings		210,208	83,265
Loans from a related company		72,335	81,435
Lease liabilities		3,833	4,838
Deferred tax liabilities		499	472
		286,875	170,010
Net assets		234,211	205,495
Capital and reserves			
Share capital	13	8,844	8,844
Reserves		225,367	196,651
Total equity		234,211	205,495

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL

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 (“**Shares**”) are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with effect from 21 January 2020. The controlling shareholders of the Company are Mr. Yin Yanbin (“**Mr. Yin**”) and Ms. Wu Hailing (“**Ms. Wu**”), the spouse of Mr. Yin. The addresses of the Company’s registered office and the principal place of business are Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands and 6th Building, Xincheng Science Park, No. 69 Aoti Street, Nanjing, the People’s Republic of China (the “**PRC**”), respectively.

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

2. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“**IASB**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on the Stock Exchange.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“**IFRSs**”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2020.

In the current interim period, the Group has applied the amendments to IFRSs issued by the IASB, for the first time, which are mandatory and effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements. In addition, the Group applied the agenda decision of the IFRS Interpretation Committee of the IASB (the "Committee") in relation to supply chain financing arrangements. Except as described below, the application of the amendments to IFRSs in the current period has had no material impact on the Group's condensed consolidated financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts on application of the agenda decision of the Committee — Supply Chain Financing Arrangements

The Committee, through its agenda decision, clarified how liabilities to pay for goods or services received and the related cash flows when the related invoices are part of supply chain financing arrangements should be presented in the statement of financial position and statement of cash flows. The Committee observed that an entity's assessment of the nature of the liabilities that are part of the supply chain financing arrangements may help in determining whether the related cash flows arise from operating or financing activities. Upon issuance of the agenda decision, the management of the Group reassessed the Group's accounting policies in respect of the presentation of cash flows arising from discounted bills which are not derecognised, in which the Group considered the cash received from discounting as borrowings whilst the cash flows relating to the borrowings were presented under operating activities as the management considered the cash flows are in substance of operating nature. Based on the clarification through the agenda decision, the Group changed its accounting policies retrospectively by presenting the cash received from discounting under financing activities in the condensed consolidated statement of cash flows and the settlement of the related receivables and borrowings are disclosed as non-cash transactions.

Effects of this change in accounting policies on the condensed consolidated statement of cash flows are as follows:

- Proceeds received from discounted bills which did not qualify for derecognition previously included under operating activities of RMB21,584,000 have been reclassified and presented as cash inflows under financing activities for the period ended 30 June 2020, which resulted in increase in net cash used in operating activities for the period ended 30 June 2020 by RMB21,584,000, and increase in net cash from financing activities for the period ended 30 June 2020 by RMB21,584,000; and

- The effects on settlement of related borrowings on maturity of the discounted bills with aggregate amounts of RMB46,163,000 previously included under financing activities and interest on discounted bills previously included under financing activities of RMB2,423,000 have been disclosed as non-cash transactions for the period ended 30 June 2020 and offset with the working capital movement in bills receivables at FVTOCI.

For the period ended 30 June 2021, the net cash used in operating activities would have been decreased by RMB113,737,000 and the net cash from financing activities would have been decreased by RMB113,737,000, if the Group has not changed the accounting policies.

The reclassification has had no effect on reported profit or loss, total comprehensive income, financial position or equity for any period presented.

4. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Types of goods		
Animal nutrition	369,097	357,230
Polyurethane materials	389,043	234,693
Medicine	268,828	204,774
Fine chemicals	153,846	91,785
Others	5,020	4,305
	<u>1,185,834</u>	<u>892,787</u>
Timing of revenue recognition		
A point in time	<u>1,185,834</u>	<u>892,787</u>

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

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

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

Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers.

	Revenue from external customers	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC	976,577	644,131
Europe	83,059	104,299
Vietnam	46,825	55,796
Other countries in Asia (excluding the PRC and Vietnam)	39,151	43,888
Others	40,222	44,673
	<u>1,185,834</u>	<u>892,787</u>

Information about major customers

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

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income		
Government grants (note 1)	2,162	1,016
Rental income	36	39
Bank interest income	4,432	1,934
Interest income on finance lease receivable	7	22
Others	244	(22)
	<u>6,881</u>	<u>2,989</u>
Other gains and losses		
Net exchange (losses) gains	(1,780)	2,542
Losses on disposals of plant and equipment	(1,257)	(2,198)
Write-off of property, plant and equipment	(2,593)	—
Fair value change on financial asset at FVTPL (note 2)	111	—
Fair value change on derivative financial instruments		
– commodity derivative contracts (note 3)	718	667
– foreign currency future contracts (note 4)	—	172
Others	734	65
	<u>(4,067)</u>	<u>1,248</u>

Notes:

1. The relevant government authority granted one-off and unconditional subsidies to the Group amounting to RMB1,138,000 (2020: RMB511,000), RMB24,000 (2020: RMB505,000) and RMB1,000,000 (2020: nil) in relation to the Group's contribution in local district, subsidies in relation to the novel coronavirus (COVID-19) pandemic and successful listing of the Shares on the Stock Exchange, which were recognised in the profit or loss in the period which they received.
2. During the six months ended 30 June 2021, amount represented realised gains of nil (2020: nil) and unrealised gains of RMB111,000 (2020: nil) arising on changes in fair value of public shares.
3. During the six months ended 30 June 2021, amount represented realised gains of RMB718,000 (2020: RMB194,000) and unrealised gains of nil (2020: RMB473,000) arising on changes in fair value of commodity derivative contracts.
4. During the six months ended 30 June 2020, amount represented realised gains of nil, RMB62,000, RMB61,000 and RMB45,000 and unrealised gains of RMB4,000, nil, nil and nil on changes in fair value of RMB, Russian Ruble, Canadian Dollar and European dollar ("EUR") to United States dollar ("US\$") foreign currency future contracts respectively.

6. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit (loss) before taxation has been arrived at after charging (crediting) to profit and loss:		
Cost of inventories recognised as expenses	1,006,591	772,180
Depreciation of property, plant and equipment	14,438	12,115
Depreciation of right-of-use assets	2,261	2,660
	<hr/>	<hr/>
Total depreciation and amortisation	16,699	14,775
Capitalised as cost of inventories manufactured	(12,712)	(10,385)
	<hr/> <hr/>	<hr/> <hr/>
	3,987	4,390
	<hr/>	<hr/>
Write-down of inventories	5,442	69
	<hr/> <hr/>	<hr/> <hr/>

7. TAXATION

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax	4,390	466
(Over) under provision in prior years	(33)	83
	<u>4,357</u>	<u>549</u>
Deferred tax	32	(160)
	<u>32</u>	<u>(160)</u>
Total	<u>4,389</u>	<u>389</u>

8. DIVIDEND

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

9. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings per share (2020: basic and diluted loss per share) attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings (loss):		
Earnings (loss) for the purposes of calculating basic earnings per share (2020: basic and diluted loss per share) attributable to owners of the Company	<u>27,035</u>	<u>(695)</u>

Six months ended 30 June

2021 2020

'000 '000

Number of shares:

Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (2020: basic and diluted loss per share)

1,000,000	971,311
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The weighted average number of ordinary shares for the purpose of calculating basic earnings per share (2020: basic and diluted loss per share) has been determined on the assumption that the Capitalisation Issue (as defined in note 13) had been effective on 1 January 2020.

The computation of diluted loss per share for the six months period ended 30 June 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 six months ended 30 June 2021.

10. TRADE RECEIVABLES**As at**

30 June 31 December

2021 2020

RMB'000 RMB'000

(Unaudited) (Audited)

Trade receivables

182,444 166,183

Less: allowance for credit losses

(9,686) (8,152)

172,758	158,031
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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	
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
0-30 days	102,594	95,241
31-60 days	43,581	40,960
61-90 days	16,401	10,320
Over 90 days	10,182	11,510
	<u>172,758</u>	<u>158,031</u>

The management of the Group has delegated a team responsible for determining 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 30 June 2021, carrying amount of trade receivables amounting to RMB1,123,000 (31 December 2020: RMB2,475,000) have been pledged as security for the Group's borrowing.

The Group does not hold any collateral over these balances.

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment loss recognised in respect of trade receivables	<u>1,966</u>	<u>797</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

During the six months ended 30 June 2021, the Group provided impairment allowance of RMB8,848,000 (2020: RMB7,634,000). In particular a specific loss allowance of RMB1,497,000 (2020: RMB883,000) has been made to individual debtors because the debtors are in severe financial difficulty and there is no realistic prospect of recovery.

During the six months ended 30 June 2021, the Group reversed the impairment allowance of RMB6,882,000 (2020: RMB6,837,000).

11. BILL RECEIVABLES AT FVTOCI

	As at	
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Bill receivables at FVTOCI	<u>52,633</u>	<u>45,821</u>

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	
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
0-180 days	52,633	41,797
Over 180 days	<u>—</u>	<u>4,024</u>
	<u>52,633</u>	<u>45,821</u>

As at 30 June 2021, the Group has pledged bill receivables at FVTOCI with a total net book value of RMB29,541,000 (31 December 2020: RMB42,831,000) to secure general banking facilities granted to the Group.

12. TRADE AND BILL PAYABLES

	As at	
	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade payables	172,436	134,499
Bill payables	<u>14,135</u>	<u>27,657</u>
	<u>186,571</u>	<u>162,156</u>

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

	As at	
	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
0-180 days	<u>14,135</u>	<u>27,657</u>

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	
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
0-30 days	107,873	78,678
31-60 days	33,000	22,479
61-90 days	11,964	10,846
Over 90 days	19,599	22,496
	<u>172,436</u>	<u>134,499</u>

13. SHARE CAPITAL

Pursuant to the 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 Hong Kong Dollar (“**HK\$**”) 0.51 each upon initial public offering in an aggregate gross amount of HK\$127,500,000 (equivalent to RMB112,757,000).

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

	Number of Shares	Amount HK\$ (Unaudited)
Ordinary shares of HK\$0.01 each		
Authorised		
At 1 January and 30 June 2020, and 1 January and 30 June 2021	<u>10,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid		
At 1 January 2020	1,000,000	10,000
Capitalisation issue	749,000,000	7,490,000
Issue of shares	<u>250,000,000</u>	<u>2,500,000</u>
At 30 June 2020, 1 January and 30 June 2021	<u>1,000,000,000</u>	<u>10,000,000</u>
		RMB'000
		(Unaudited)
Presented as at 1 January 2020		9
Presented as at 30 June 2020, 1 January and 30 June 2021		<u>8,844</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is 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 United States (the “US”). With headquarters in the PRC, we offer a comprehensive product portfolio with a wide range of applications and a full spectrum of services relating to chemical intermediates supply chain through our extensive global operation and sales network, including research and development on production processes, strong product customisation capabilities, manufacturing of quality chemical products, sourcing of wide-ranging chemicals manufactured by third party manufacturers, efficient and safe logistics services and after-sales services.

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

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

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

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

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

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

BUSINESS REVIEW

During the six months ended 30 June 2021, our financial performance significantly recovered from the economic downturn resulting from the outbreak of the COVID-19 pandemic in 2020, especially our sales of different products in the PRC which increased significantly. The sales volume of our self-manufacturing products such as betaine, isooctanoic acid, cardanol and iodine derivatives, as well as our third-party manufactured trading products such as polymeric methylene diphenyl diisocyanate (“**polymeric MDI**”) and toluene diisocyanate (“**TDI**”) significantly increased, mainly as a result of recovery of the PRC's economy from the outbreak of COVID-19. The better operating performance in the PRC outweighed the decrease in revenue from overseas sales due to the effect of the continuous outbreak of COVID-19 in Asia, Europe, the US and other western countries. As a result, our revenue during the six months ended 30 June 2021 increased as compared to the corresponding period last year.

During the six months ended 30 June 2021, our Group recorded a revenue of approximately RMB1,185.8 million (2020: RMB892.8 million), representing an increase of 32.8% as compared to the corresponding period last year.

The increase in revenue was mainly attributable to the increase in revenue generated from (i) sales of chemicals produced by third parties such as polymeric MDI and TDI in our polyurethane materials segment mainly due to suspension of production facilities in the Europe and the US as affected by the cold wave in first quarter of 2021, leading to a shortage of supply and hence an increase in market price; (ii) sales of self-manufacturing products such as betaine, isooctanoic acid, cardanol and iodine derivatives in the PRC due to the increasing demand from our downstream customers, which are explained below in details.

The net profit attributed to owners of the Company for the six months ended 30 June 2021 amounted to approximately RMB27.0 million (2020: loss attributed to owners of the Company of RMB0.7 million). The increase in profit was mainly attributable to an increase in gross profit from approximately RMB120.5 million for the six months ended 30 June 2020 to approximately RMB173.8 million for the six months ended 30 June 2021 as a result of the good performance in our operations in the PRC after recovery from the outbreak of the COVID-19 pandemic, partially offset by the increase in (i) selling and distribution expenses, administrative expenses and research and development expenses due to the increasing operating scale; (ii) write-off of property, plant and equipment of approximately RMB2.6 million (2020: nil) resulted from the termination of production in our Xuzhou production plant and centralised our production functions in Tai'an; and (iii) net exchange loss of approximately RMB1.8 million (2020: net exchange gain of approximately RMB2.5 million) during the period mainly as a result of depreciation of US\$ against RMB.

Details of our financial performance is further explained below.

FINANCIAL REVIEW

Revenue

The table below sets forth the breakdown of our revenue by business segments during the six months ended 30 June 2021:

Total revenue by business segments

	For the six months ended 30 June			
	2021		2020	
	RMB'000	% of total revenue	RMB'000	% of total revenue
Polyurethane materials	389,043	32.8%	234,693	26.3%
Animal nutrition chemicals	369,097	31.1%	357,230	40.0%
Fine chemicals	153,846	13.0%	91,785	10.3%
Pharmaceutical products and intermediates	268,828	22.7%	204,774	22.9%
Sub-total	1,180,814	99.6%	888,482	99.5%
Others (note)	5,020	0.4%	4,305	0.5%
Total	<u>1,185,834</u>	<u>100.0%</u>	<u>892,787</u>	<u>100.0%</u>

	For the six months ended 30 June			
	2021		2020	
	RMB'000	% of total revenue	RMB'000	% of total revenue
Self-manufactured chemicals	715,327	60.3%	593,237	66.4%
Chemicals produced by third parties	465,487	39.3%	295,245	33.1%
Sub-total	1,180,814	99.6%	888,482	99.5%
Others (note)	5,020	0.4%	4,305	0.5%
Total	1,185,834	100.0%	892,787	100.0%

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

Polyurethane materials

Our revenue generated from the sales of polyurethane materials increased from approximately RMB234.7 million for the six months ended 30 June 2020 to approximately RMB389.0 million for the six months ended 30 June 2021, primarily due to the increase in both our sales volume as well as average selling prices of our significant polyurethane materials products such as polymeric MDI and TDI.

Our average selling prices of polymeric MDI and TDI increased from approximately RMB10,168 and RMB9,206, respectively, per tonne for the six months ended 30 June 2020 to approximately RMB16,826 and RMB12,582 per tonne, respectively, for the six months ended 30 June 2021, primarily because of (i) the suspension of production of major manufacturers in Europe and the US due to the cold wave in the first quarter of 2021, leading to a shortage of supply; (ii) the increase in demand from PRC downstream customers after the significant recovery of economy in the PRC since the second half of 2020; and (iii) the increase in cruel oil market price in 2021.

Our sales volume of polymeric MDI and TDI increased from approximately 11,635 tonnes and 2,617 tonnes, respectively, to approximately 14,859 tonnes and 3,798 tonnes, respectively. 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 since the second half of 2020 during the period of shortage of supply of polymeric MDI. We were able to retain these customers because of our quality of services and marketing efforts. We were also able to sell the polymeric MDI at a higher gross profit margin compared to corresponding period last year as a result of our product procurement strategy.

Our sales volume of polymer polyether decreased from approximately 4,894 tonnes for the six months ended 30 June 2020 to approximately 3,385 tonnes for the six months ended 30 June 2021. The decrease in sales volume was primarily due to the reduction of demand from roofing industry. In previous years, there was an increasing market demand for our polymer polyether which was made without ozone-depleting freon due to growing environmental awareness. However, many swine farm construction projects which related to the roofing industry were delayed or cancelled due to the PRC national policy.

Animal nutrition chemicals

Our revenue generated from sales of animal nutrition chemicals slightly increased from approximately RMB357.2 million for the six months ended 30 June 2020 to approximately RMB369.1 million for the six months ended 30 June 2021, primarily due to the increase in our average selling price of choline chloride and betaine, as well as the increase in sales volume of betaine, partially offset by the decrease in sales volume of choline chloride.

During the six months ended 30 June 2021, sales of choline chloride accounted for approximately 75% (2020: 85%) of our revenue under the animal nutrition chemicals segment. The revenue generated from sales of choline chloride decreased from approximately RMB303.9 million for the six months ended 30 June 2020 to approximately RMB273.8 million for the six months ended 30 June 2021, primarily due to the decrease in our export sales volume of choline chloride during the financial period under review as a result of the continuous outbreak of the COVID-19 pandemic in Asia, Europe, the US and other western countries. Our sales volume of choline chloride decreased from approximately 72,015 tonnes for the six months ended 30 June 2020 to approximately 54,398 tonnes for the six months ended 30 June 2021.

On the other hand, our sales of betaine increased from approximately 6,557 tonnes for the six months ended 30 June 2020 to approximately 10,958 tonnes for the six months ended 30 June 2021, which was mainly due to the increase in new customers and our market share in betaine.

The average selling price of choline chloride and betaine increased from approximately RMB4,220 and RMB6,073, respectively, per tonne for the six months ended 30 June 2020 to approximately RMB5,033 and RMB7,582 per tonne, respectively, for the six months ended 30 June 2021, primarily because of the increase in both of the production cost and our increasing bargaining power with our existing customers, who were satisfied with our integrated sale services. For betaine, the demand for our high concentration betaine products from our existing and new customers increased, which also led to the increase in the average selling price.

Fine chemicals

Our revenue generated from sales of fine chemicals increased from approximately RMB91.8 million for the six months ended 30 June 2020 to approximately RMB153.8 million for the six months ended 30 June 2021, primarily due to the increase in sales volume and average selling prices of cardanol and isooctanoic acid. The increase was primarily because of (i) the increase in demand from PRC downstream customers after the significant recovery of economy in the PRC since the second half of 2020; and (ii) a new market of isooctanoic acid were discovered, i.e. it is used as the catalyst in oil hydrogenation industry, leading to a significant increase in demand for isooctanoic acid.

Pharmaceutical products and intermediates

Our revenue generated from sales of pharmaceutical products and intermediates increased from approximately RMB204.8 million for the six months ended 30 June 2020 to approximately RMB268.8 million for the six months ended 30 June 2021, primarily due to the increase in sales volume of our iodine derivatives.

The increase in sales volume of our iodine derivatives was primarily due to the increase in (i) demand from PRC downstream customers after the significant recovery of economy in the PRC since the second half of 2020; and (ii) 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, as well as sub-processing services provided to our downstream image diagnosis industry customers.

On the other hand, the increase in revenue generated from sales of pharmaceutical products and intermediates was partially offset by the decrease in average selling prices of our iodine and iodine derivatives products as a result of decrease in import price of iodine.

The table below sets forth our total sales in terms of geographical locations of our customers during the six months ended 30 June 2021:

Total revenue by geographical locations

	For the six months ended 30 June			
	2021		2020	
	RMB'000	% of total revenue	RMB'000	% of total revenue
The PRC	976,577	82.4%	644,131	72.2%
Europe	83,059	7.0%	104,299	11.7%
Vietnam	46,825	3.9%	55,796	6.2%
Other countries in Asia (excluding the PRC and Vietnam)	39,151	3.3%	43,888	4.9%
Others	40,222	3.4%	44,673	5.0%
Total	<u>1,185,834</u>	<u>100.0%</u>	<u>892,787</u>	<u>100.0%</u>

Our revenue derived from the PRC contributed approximately 72.2% and 82.4% of our total revenue for the six months ended 30 June 2020 and 2021, 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 pharmaceutical products and intermediates were in line with the fluctuations in the overall revenue of each of these segments.

Our revenue derived from the animal nutrition chemicals segment in the PRC increased from RMB181.7 million for the six months ended 30 June 2020 to RMB244.4 million for the six months ended 30 June 2021, which was mainly due to the increase in sales in betaine as mentioned above. The decrease in revenue derived from the animal nutrition chemicals segment was mainly due to the decrease in overseas sales of choline chloride as a result of the continuous outbreak of COVID-19 in overseas countries as mentioned above. The continuous outbreak of COVID-19 in overseas countries also led to the decrease in our revenue derived from Europe, Vietnam and Asia (excluding the PRC and Vietnam) from approximately RMB104.3 million, RMB55.8 million and RMB43.9 million for the six months ended 30 June 2020 to approximately RMB83.1 million, RMB46.8 million and RMB39.2 million for the six months ended 30 June 2021, respectively.

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 sales increased from approximately RMB772.2 million for the six months ended 30 June 2020 to approximately RMB1,012.0 million for the six months ended 30 June 2021. The increase in our cost of sales was driven by the increase in (i) cost of raw materials and inventories incurred as a result of increasing sales volume of the products in different segments; and (ii) write-down of inventories mainly derived from a fire accident in our third party warehouse in Vietnam.

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 six months ended 30 June 2021:

Total gross profit by business segments

	For the six months ended 30 June			
	2021		2020	
	Gross profit		Gross profit	
	RMB'000	margin %	RMB'000	margin %
Polyurethane materials	27,399	7.0%	20,785	8.9%
Animal nutrition chemicals	83,207	22.5%	67,108	18.8%
Fine chemicals	23,139	15.0%	6,552	7.1%
Pharmaceutical products and intermediates	39,611	14.7%	25,557	12.5%
Others	445	8.9%	536	12.5%
Total	<u>173,801</u>	<u>14.7%</u>	<u>120,538</u>	<u>13.5%</u>

Our gross profit increased from approximately RMB120.5 million for the six months ended 30 June 2020 to approximately RMB173.8 million for the six months ended 30 June 2021. Our overall gross profit margin increased from 13.5% for the six months ended 30 June 2020 to approximately 14.7% for the six months ended 30 June 2021. The increase in our gross profit and gross profit margin were mainly due to the increase in (i) the gross profit margin of our animal nutrition chemicals segment, which generated the highest gross profit margin among all segments in both periods, as a result of our increasing bargaining power on purchase of raw materials as well as on sales of our products; (ii) the sales of our self-manufacturing products in the fine chemical segment such as isooctanoic acid and cardanol, which also generated high gross profit margin when compare to other third-party manufacturing products; (iii) the gross profit of polymeric MDI due to the increasing sales volume as mentioned above; and (iv) the sales of our self-manufacturing iodine derivatives as mentioned above, which also generated high gross profit margin when compared to other third-party manufacturing products.

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, subsidy in relation to the COVID-19 pandemic, successful listing (the “**Listing**”) of the Shares on the Stock Exchange and bank interest income. It increased from approximately RMB3.0 million for the six months ended 30 June 2020 to RMB6.9 million for the six months ended 30 June 2021. The increase in our other income was mainly due to the increase in (i) bank interest income from approximately RMB1.9 million to approximately RMB4.4 million derived from increasing average restricted bank deposits and bank balances during the period; and (ii) one-off government grant received by our PRC subsidiary of RMB1.0 million in relation to the successful listing of the shares of the Company on the Stock Exchange.

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; (iii) write-off of property, plant and equipment; and (iv) net gain arising on fair value changes on derivative financial instruments and financial asset at FVTPL. Our Group recorded net other losses of approximately RMB4.1 million for the six months ended 30 June 2021 and net other gains of approximately RMB1.2 million for the six months ended 30 June 2020. Such increase in loss in our net other gains and losses was mainly because of (i) a net exchange gain of approximately RMB2.5 million recorded for the six months ended 30 June 2020 whereas a net exchange loss of approximately RMB1.8 million was recorded for the six months ended 30 June 2021, as a result of the depreciation of US\$ against RMB during the six months ended 30 June 2021; and (ii) write-off of property, plant and equipment of approximately RMB2.6 million as a result of the termination of production in our Xuzhou production plant and centralisation of our production functions in Tai'an.

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 RMB54.4 million for the six months ended 30 June 2020 to approximately RMB63.5 million for the six months ended 30 June 2021. The increase in our selling and distribution expenses was primarily due to increase in logistic costs (including transportation, port charges and shipment costs), which was in line with the increase in our sales volume of fine chemical segment, polyurethane materials segment and pharmaceutical products and intermediates segment during the current period.

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 increased from approximately RMB39.4 million for the six months ended 30 June 2020 to approximately RMB45.2 million for the six months ended 30 June 2021. The increase in our administrative expenses was primarily due to increases in our staff costs resulted from the severance payment for staff upon the close down of our Xuzhou production factory amounting to approximately RMB2.8 million.

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 the 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 RMB16.8 million for the six months ended 30 June 2020 to approximately RMB21.6 million for the six months ended 30 June 2021. The increase in our research and development expenses was primarily due to an increase in cost of raw materials of approximately RMB2.9 million because of the increase in cost of raw materials used for technological enhancement of (i) choline chloride of approximately RMB1.3 million due to the increasing trials for carrier screening and proportioning research; and (ii) polyurethane materials of approximately RMB1.7 million for the research on application of polyurethane rigid foam spraying. Besides, the staff costs, electricity expenses and depreciation in relation to our research and development also increased proportionately.

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 decreased from approximately RMB13.7 million for the six months ended 30 June 2020 to approximately RMB13.0 million for the six months ended 30 June 2021. The decrease in our finance costs was primarily due to the increase in the average loans from a related company, which bore a lower interest rate, to replace third-party borrowings which bore a relatively higher interest rate.

Income tax expenses

Our income tax expenses increased from approximately RMB0.4 million for the six months ended 30 June 2020 to approximately RMB4.4 million for the six months ended 30 June 2021. The increase in our income tax expenses was mainly due to the increase in our current tax expense, which is in line with the increase in our profit before taxation.

Our effective tax rate was approximately 14.0% for the six months ended 30 June 2021. Since the Group was loss-making during the six months ended 30 June 2020, no effective tax rate was calculated.

(Profit) loss for the period

As a result of the foregoing, we recorded a profit for the period of approximately RMB27.0 million for the six months ended 30 June 2021, comparing to a loss for the period of approximately RMB0.7 million for the six months ended 30 June 2020, as a combined result of the above fluctuations.

PROSPECTS

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

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

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders of the Company (the “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 period.

During the six months ended 30 June 2021, the Group’s working capital was financed by both internal resources and borrowings.

As at 30 June 2021, the Group’s total assets and bank balances and cash amounted to approximately RMB1,138.7 million (31 December 2020: RMB1,021.7 million) and RMB69.1 million (31 December 2020: RMB61.9 million), respectively. The bank balances and cash were mainly denominated in RMB and US\$.

As at 30 June 2021, the borrowings (including loans from a related company) were approximately RMB625.9 million (31 December 2020: RMB562.9 million). As at 30 June 2021, borrowings amounting to approximately RMB605.9 million (31 December 2020: RMB542.9 million) are carried at fixed interest rates ranging from 0% to 8.0% (31 December 2020: from 0% to 8.6%) per annum and repayable from 2021 to 2050 (31 December 2020: from 2021 to 2050), borrowings amounting to approximately RMB20.0 million (31 December 2020: RMB20.0 million) are carried at variable interest rates ranging from 4.4% to 5.7% (31 December 2020: from 4.7% to 5.7%) per annum and repayable in 2022 (31 December 2020: repayable in 2021).

The gearing ratio of the Group, which was calculated by dividing the total external borrowings by total equity as at the end of the period and multiplied by 100%, is 267.2% (31 December 2020: 273.9%). There were no material changes in the gearing ratio of the Group.

In the current interim period, the Group applied the agenda decision of the Committee in relation to supply chain financing arrangements. For the period ended 30 June 2021, the net cash used in operating activities would be RMB46,436,000 and the net cash from financing activities would be RMB47,346,000, if the Group has not changed the accounting policies.

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 continue to be applied in the following manner:

- (i) approximately 17.2%, or HK\$11.3 million, will be used on the initial establishment of the new production plant to be established at the western region from our existing Tai’an production plant (the “**New Production Plant**”), which will consist of production facilities for the production of trimethylamine and a pilot plant for manufacturing pharmaceutical intermediates, respectively;
- (ii) approximately 60.4%, or HK\$39.8 million, will be used to construct production facilities at the New Production Plant for manufacturing trimethylamine, which is the principal raw material used to produce choline chloride and betaine;
- (iii) approximately 10.2%, or HK\$6.7 million, will be used on the construction of a pilot plant at the New Production Plant for small batch production of various types of pharmaceutical intermediates;

- (iv) approximately 2.2% of HK\$1.5 million, will be used on the research and development process of our new pharmaceutical product, moxifloxacin hydrochloride tablets, by which we plan to engage a pharmaceutical company, which is an independent third party to the Group, to conduct clinical trials on moxifloxacin hydrochloride tablets including preliminary and formal bioequivalence testings, raw materials purchase, sample preparation and other miscellaneous costs;
- (v) approximately 0.8%, or HK\$0.5 million, will be used on purchasing hardware and software for upgrading our existing financial and accounting management system, which will support the operation of our current office automation system; and
- (vi) approximately 9.2%, or HK\$6.1 million, will be used as working capital and other general corporate purposes.

Since the Listing Date and up to 30 June 2021, the net proceeds from the Listing had been applied as follows:

Business objective as stated in the Company's prospectus dated 31 December 2019 (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	Proceeds unused	Planned timeline as stated in the Prospectus	Expected timeline
				Date to 30 June 2021 RMB'million	as at 30 June 2021 RMB'million		
Initial establishment of the New Production Plant	17.2%	11.3	10.1	10.1	0.0	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	2.7	32.7	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	5.5	0.5	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	23.7	34.9		

As at the date of this announcement, the Group had entered into several construction contracts with constructors regarding the establishment of the New Production Plant and the construction works had been on-going during the six months ended 30 June 2021 (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 30 June 2021, contracts with a total amount of approximately RMB4.9 million were signed in relation to the purchase of machinery and equipment for the production of the pharmaceutical intermediates used in production of moxifloxacin hydrochloride tablets, which will be developed in our pilot plant at the New Production Plant in the future.

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

Save as disclosed above, the Directors are not aware of any material change or delay in the planned use of proceeds. As at the date of this announcement, there were no changes of business plan from that disclosed in the Prospectus. The unutilized portion of the net proceeds of RMB34.9 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 arise. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Credit Risk

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

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

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

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 period. 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 period, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

CAPITAL EXPENDITURES

During the period, the Group's capital expenditures consisted of additions to property, plant and equipment and construction in progress in our operations amounting to approximately RMB65.3 million (2020: RMB20.4 million).

CAPITAL COMMITMENT

As at 30 June 2021, the Group had a capital commitment of approximately RMB21.3 million (31 December 2020: RMB34.1 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 30 June 2021, save as (i) restricted bank deposits of approximately RMB102.1 million (31 December 2020: RMB172.4 million); (ii) right-of-use assets and property, plant and equipment of approximately RMB45.8 million and RMB39.5 million respectively (31 December 2020: right-of-use assets and property, plant and equipment of approximately RMB46.3 million and RMB45.8 million respectively); (iii) bill receivables at fair value through other comprehensive income of approximately RMB29.5 million (31 December 2020: RMB42.8 million); (iv) bank balance and cash of approximately RMB0.7 million (31 December 2020: RMB0.7 million); (v) inventories of approximately RMB4.5 million (31 December 2020: RMB5.0 million); and (vi) trade receivables and other receivables and prepayments of approximately RMB1.2 million (31 December 2020: RMB2.8 million) to secure the borrowings, the Group did not pledge any other assets.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any significant contingent liabilities (2020: Nil).

DIVIDEND

The Board has resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2021 (2020: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group had a total of 874 (31 December 2020: 890) employees, including the Directors. Total staff costs (including Directors' remuneration) was approximately RMB44.1 million (2020: RMB34.2 million) for the six months ended 30 June 2021.

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 six months ended 30 June 2021, the Group did not hold any significant investment or capital assets (2020: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL EXPENDITURES

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

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group has not acquired nor disposed of any of its material subsidiaries during the six months ended 30 June 2021.

EVENTS AFTER REPORTING PERIOD

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

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

INTEREST OF THE COMPLIANCE ADVISER

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

AUDIT COMMITTEE AND REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed the internal control and risk management and financial reporting matters, including review of the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2021 with the management, and that adequate disclosures have been made with no disagreement by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2021 and up to the date of this announcement.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") as 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 during the period ended 30 June 2021.

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 for the period ended 30 June 2021 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions (the “**Code Provisions**”) as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules during the period ended 30 June 2021. During the period ended 30 June 2021 and up to the date of this announcement, the Company has complied with all the Code Provisions of the CG Code, save and except for the code provision A.2.1. Details of the deviation from the Code Provision A.2.1 are explained in the section “Chairman and Chief Executive Officer” below. The Board is committed to complying with the principles of the CG Code contained in the Appendix 14 to the Listing Rules. The Company is committed to achieving and maintaining high standards of corporate governance consistent with the needs and requirements of its business and the Shareholders. The corporate governance principles of the Company emphasise a quality board, sound internal controls, and transparency and accountability to all the Shareholders. The Board will continue to review and enhance its corporate governance practice to ensure compliance with the CG Code, and make necessary changes as appropriate.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under Code Provision A.2.1 of the CG Code, the roles of the Chairman of the Board and chief executive officer of the Company should be separated and should not be performed by the same individual. During the six months ended 30 June 2021, the Company has not separated the roles of the Chairman of the Board and the Chief Executive Officer of the Company. Mr. Yin Yanbin was the Chairman of the Board and also the Chief Executive Officer of the Company responsible for overseeing the operations of the Group during year. The Board believes that vesting the roles of both the Chairman of the Board and the Chief Executive Officer of the Company in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies. The Board shall nevertheless review the structure from time to time to ensure appropriate move is being taken should suitable circumstances arise.

The CG Code stipulates that the Chairman of the Board should at least annually hold meetings with the Independent Non-executive Directors without the executive Directors present. During the six months ended 30 June 2021, the Chairman held a meeting with the Independent Non-executive Directors without the presence of other executive Directors.

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

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company at www.goldenhighway.com, and the interim report of the Company for six months ended 30 June 2021 containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of Stock Exchange and the Company in due course.

By order of the Board

GHW International

Yin Yanbin

Chairman and Chief Executive Officer

Hong Kong, 27 August 2021

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