GHW International

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 9933

2021 INTERIM 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 *(resigned with effect from 26 May 2021)*
Diao Cheng *(appointed with effect from 26 May 2021)*

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)
(resigned with effect from 26 May 2021)
Diao Cheng (Chairman)
(appointed with effect from 26 May 2021)
Zheng Qing
Sun Hongbin

RISK MANAGEMENT COMMITTEE

Chen Zhaohui (Chairman)
(appointed with effect from 26 May 2021)
Zhou Chunnian
Chen Hua
Sun Guibin *(resigned with effect from 26 May 2021)*

AUTHORISED REPRESENTATIVES

Yin Yanbin
Wu Wing Hou

COMPANY SECRETARY

Wu Wing Hou

REGISTERED OFFICE

Cricket Square
Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

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

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People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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
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Cayman Islands

CORPORATE INFORMATION

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 54
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183 Queen's Road East
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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

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STOCK CODE

9933

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

GHW International (the **"Company"**) and its subsidiaries (collectively referred to as 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 People's Republic of China (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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 novel coronavirus (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 dollar (**"US$"**) against Renminbi (**"RMB"**).

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 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	**1,185,834**	**100.0%**	892,787	100.0%

	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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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	**1,185,834**	**100.0%**	892,787	100.0%

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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	**173,801**	**14.7%**	120,538	13.5%

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 of the Company (the **"Share(s)"**) on the Main Board of The Stock Exchange of Hong Kong Limited (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$; (ii) losses on disposals of plant and equipment; (iii) write-off of property, plant and equipment; and (iv) net gain arising on fair value changes on derivative financial instruments and financial asset at fair value through profit or loss (**"FVTPL"**). Our Group recorded net other losses of approximately RMB4.1 million for the six months ended 30 June 2021 and net other gains of approximately RMB1.2 million for the six months ended 30 June 2020. Such increase in loss in our net other gains and losses was mainly because of (i) a net exchange gain of approximately RMB2.5 million recorded for the six months ended 30 June 2020 whereas a net exchange loss of approximately RMB1.8 million was recorded for the six months ended 30 June 2021, as a result of the depreciation of US$ 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.

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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 **"Board"**) of the directors (the **"Directors"**) of the Company, 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 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 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 International Financial Reporting Standards ("**IFRSs**") Interpretation Committee of the International Accounting Standards Board ("**IASB**") (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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 Date to 30 June 2021 RMB'million	Proceeds unused as at 30 June 2021 RMB'million	Planned timeline as stated in the Prospectus	Expected timeline
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 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 report, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest Rate Risk

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

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

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

Credit Risk

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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.

OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provision (the "**Code Provisions**") as set out in the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). During the six months ended 30 June 2021, 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 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.

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 ("**Mr. Yin**") was the Chairman of the Board and also the Chief Executive Officer of the Company responsible for overseeing the operations of the Group during the period. 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct regarding the dealings in securities of the Company by the Directors during the six months 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 during the six months ended 30 June 2021.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Related Party Transactions/Exempted Continuing Connected Transactions" in this report and notes 15 and 18 to the condensed 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 six months ended 30 June 2021, and no contract of significance to which the Company or any of its subsidiaries was a party and in which Mr. Yin and Ms. Wu Hailing ("**Ms. Wu**"), the spouse of Mr. Yin, Ms. Wang Wei, Mr. Pan Bing, Commonwealth B Limited ("**Commonwealth B**"), Commonwealth Yanbin Limited ("**Commonwealth Yanbin**"), Commonwealth Violet Limited, Commonwealth YYB Limited ("**Commonwealth YYB**"), Commonwealth Happy Elephant Limited ("**Commonwealth Happy Elephant**"), HMZ Holdings Ltd and HappyBean Holdings Limited (collectively, the "**Controlling Shareholders**") or an entity connected with the Controlling Shareholders had a material interest, either directly or indirectly, subsisted during or at the end of the six months ended 30 June 2021.

OTHER INFORMATION

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

RELATED PARTY TRANSACTIONS/EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Details of the related party transactions of the Group are set out in notes 15 and 18 to the condensed consolidated financial statements.

During the period, 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 30 June 2021, the outstanding loan from Hanhe Enterprises amounting to RMB84.5 million. Detail terms of the Loan Facility were disclosed in note 15 of the condensed 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 a Controlling Shareholder 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 has 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 condensed consolidated financial statements and as disclosed above, the Group has not entered into any connected transaction or continuing connected transaction during the period 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 period.

OTHER INFORMATION

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

As at 30 June 2021, 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 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 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 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 30 June 2021, 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 period 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. The Share Option Scheme will be valid and effective for a period of ten years from 21 January 2020. Please refer to the Prospectus for details of the Share Option Scheme.

OTHER INFORMATION

As at 30 June 2021, 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 30 June 2021.

EQUITY-LINKED AGREEMENTS

For the period, 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 30 June 2021.

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

As at 30 June 2021, 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 Limited ("**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 30 June 2021, 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.

OTHER INFORMATION

SHARE CAPITAL

Details of the movements in the share capital of the Company during the six months ended 30 June 2021 are set out in note 16 to the condensed consolidated financial statements of this report.

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.

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 six months ended 30 June 2021.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2021 (2020: Nil). No dividend was paid during the period under review.

INTEREST OF THE COMPLICANCE ADVISER

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

AUDIT COMMITTEE AND REVIEW OF CONDENSED 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 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.

On behalf of the Board

Yin Yanbin
Chairman and Chief Executive Officer

Hong Kong, 27 August 2021

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 RMB'000 (Unaudited)	 2020 RMB'000 (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		**27,035**	(695)
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
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

	Notes	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	**320,147**	273,876
Right-of-use assets	10	**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	11	**172,758**	158,031
Bill receivables at FVTOCI	12	**52,633**	45,821
Other receivables and prepayments		**82,324**	49,903
Tax recoverable		**210**	275
Financial assets at 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
Current liabilities			
Trade and bill payables	13	**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	14	**332,755**	398,176
Loans from a related company	15	**10,600**	—
		617,647	646,244
Net current assets		**145,868**	44,036
Total assets less current liabilities		**521,086**	375,505

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2021

	Notes	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Non-current liabilities			
Borrowings	14	**210,208**	83,265
Loans from a related company	15	**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	16	**8,844**	8,844
Reserves		**225,367**	196,651
Total equity		**234,211**	205,495

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	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 2020 (audited)	9	—	56,628	1,459	(8,127)	37,311	(372)	27,654	114,562
Loss for the period	—	—	—	—	—	—	—	(695)	(695)
Other comprehensive expense for the period	—	—	—	—	(1,498)	—	(113)	—	(1,611)
Total comprehensive expense for the period	—	—	—	—	(1,498)	—	(113)	(695)	(2,306)
Issue of shares upon Capitalisation Issue (note 16)	6,624	(6,624)	—	—	—	—	—	—	—
Issue of shares upon initial public offering (note 16)	2,211	110,546	—	—	—	—	—	—	112,757
Transaction cost attributable to issue of new shares	—	(25,703)	—	—	—	—	—	—	(25,703)
Transfer to safety reserve	—	—	—	1,757	—	—	—	(1,757)	—
At 30 June 2020 (unaudited)	8,844	78,219	56,628	3,216	(9,625)	37,311	(485)	25,202	199,310
At 1 January 2021 (audited)	**8,844**	**78,219**	**58,633**	**2,633**	**(1,249)**	**46,213**	**(201)**	**12,403**	**205,495**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**27,035**	**27,035**
Other comprehensive income for the period	**—**	**—**	**—**	**—**	**1,838**	**—**	**(157)**	**—**	**1,681**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**1,838**	**—**	**(157)**	**27,035**	**28,716**
At 30 June 2021 (unaudited)	**8,844**	**78,219**	**58,633**	**2,633**	**589**	**46,213**	**(358)**	**39,438**	**234,211**

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 PRC, two PRC subsidiaries of 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restate)
NET CASH USED IN OPERATING ACTIVITIES	**(160,173)**	(166,211)
INVESTING ACTIVITIES		
Interest received	**3,410**	1,934
Proceeds on disposals of property, plant and equipment	**602**	33
Purchases of property, plant and equipment	**(69,093)**	(22,886)
Net refund for rental deposits	**21**	27
Withdrawal of restricted bank deposits	**172,429**	108,816
Placements of restricted bank deposits	**(102,098)**	(160,000)
Purchase of financial asset at FVTPL	**(2,069)**	—
Proceeds from sale of financial asset at FVTPL	**1,546**	—
Proceeds from finance lease receivable	**245**	245
Repayments from immediate holding companies	**—**	70
Net cash from (used in) investing activities	**4,993**	(71,761)
FINANCING ACTIVITIES		
Dividend paid	**—**	(1,800)
Proceeds on issue of shares upon initial public offering	**—**	112,757
Issue costs paid	**—**	(18,516)
Interest paid	**(13,737)**	(11,265)
Repayments of lease liabilities	**(2,111)**	(3,180)
Repayments of bank loans	**(259,436)**	(188,516)
New bank loans raised	**434,867**	335,676
Loans from a related company	**10,900**	20,000
Repayments to a related company	**(9,400)**	—
Repayments to a shareholder/a former shareholder	**—**	(5)
Net cash from financing activities	**161,083**	245,151
NET INCREASE IN CASH AND CASH EQUIVALENTS	**5,903**	7,179
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**61,906**	35,716
Effects of foreign exchange rate change	**1,249**	96
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**69,058**	42,991

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 are listed on the Stock Exchange with effect from 21 January 2020. The controlling shareholders of the Company are Mr. Yin and Ms. Wu. 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.

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 Listing Rules.

The condensed consolidated financial statements are presented in 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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
	1,185,834	892,787
Timing of revenue recognition		
A point in time	**1,185,834**	892,787

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.

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
	1,185,834	892,787

Information about major customers

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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)
	6,881	2,989
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
	(4,067)	1,248

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 COVID-19 pandemic and successful listing of the shares of the Company 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 US$ foreign currency future contracts respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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
Total depreciation and amortisation	**16,699**	14,775
Capitalised as cost of inventories manufactured	**(12,712)**	(10,385)
	3,987	4,390
Write-down of inventories	**5,442**	69

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
	4,357	549
Deferred tax	**32**	(160)
Total	**4,389**	389

8. DIVIDENDS

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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	**27,035**	(695)

	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

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 16) 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. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group disposed of property, plant and equipment with an aggregate carrying amount of RMB1,859,000 (2020: RMB2,231,000) for cash proceeds of RMB602,000 (2020: RMB33,000), resulting in a loss on disposal of RMB1,257,000 (2020: RMB2,198,000).

In addition, during the current interim period, the Group acquired property, plant and equipment with an aggregate amount of RMB65,348,000 (2020: RMB20,446,000).

As at 30 June 2021, the factory buildings located in Xuzhou, the PRC, with total net carrying amounts of nil (31 December 2020: RMB716,000), have no certificate of and ownership.

As at 30 June 2021, the Group has pledged buildings, plant and machinery and motor vehicles with a total net book value of RMB39,493,000 (31 December 2020: RMB45,753,000) to secure general banking and other facilities granted to the Group.

During the current interim period, the Group entered into new lease agreements for the use of offices and warehouses for 4 months to 2 years (2020: use of offices and warehouses for 2 to 5 years). The Group is required to make fixed monthly payments. On lease commencement, the Group recognised RMB1,245,000 (2020: RMB3,123,000) of right-of-use asset and lease liability.

For both periods, the Group leases various offices, warehouses and parking spaces for its operations. Lease contracts are entered into for fixed term of 4 months to 75 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.

As at 30 June 2021, the Group has pledged leasehold land with a net book value of RMB45,796,000 (31 December 2020: RMB46,309,000) to secure general banking facilities granted to the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

11. TRADE RECEIVABLES

	As at	
	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables	**182,444**	166,183
Less: allowance for credit losses	**(9,686)**	(8,152)
	172,758	158,031

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (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
	172,758	158,031

The management of the Group has delegated a team responsible for determinating 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

11. TRADE RECEIVABLES (Continued)

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	**1,966**	797

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).

12. BILL RECEIVABLES AT FVTOCI

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

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	**—**	4,024
	52,633	45,821

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

13. 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	**14,135**	27,657
	186,571	162,156

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	**14,135**	27,657

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (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
	172,436	134,499

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

14. BORROWINGS

	As at	
	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Secured bank loans	**174,242**	309,378
Unsecured bank loans	**217,439**	170,777
Other loans	**151,282**	1,286
	542,963	481,441
The carrying amounts of the above borrowings are repayable based on scheduled repayment terms:		
Within one year	**332,755**	398,176
More than one year but not more than two years	**59,239**	82,286
More than two years but not more than five years	**150,000**	—
More than five years	**969**	979
	542,963	481,441
Less: Amounts shown under non-current liabilities	**210,208**	83,265
Amounts shown under current liabilities	**332,755**	398,176

15. LOANS FROM A RELATED COMPANY

Loans from a related company

	As at	
	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Nanjing Hanhe Enterprises Co., Ltd. ("**Hanhe Enterprises**")	**82,935**	81,435

During the year ended 31 December 2020, the Group entered into a facilities agreement with Hanhe Enterprises, a related company controlled by Mr. Yin, 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 30 June 2021, an aggregate principal amount of RMB84,500,000 (31 December 2020: RMB83,000,000) has been utilised and repayable in 2022 and 2023.

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 (2020: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

16. 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$ (Unudited)
Ordinary shares of HK$0.01 each		
Authorised		
At 1 January and 30 June 2020, and 1 January and 30 June 2021	10,000,000,000	100,000,000
Issued and fully paid		
At 1 January 2020	1,000,000	10,000
Capitalisation issue	749,000,000	7,490,000
Issue of shares	250,000,000	2,500,000
At 30 June 2020, 1 January and 30 June 2021	1,000,000,000	10,000,000

	RMB'000 (Unudited)
Presented as at 1 January 2020	9
Presented as at 30 June 2020, 1 January and 30 June 2021	8,844

17. CAPITAL COMMITMENTS

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	**21,314**	34,135

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

18. RELATED PARTY TRANSACTIONS

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

Finance costs

	As at 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on loans from a related company - Hanhe Enterprises	**870**	—

Compensation of key management personnel

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

	As at 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	**2,334**	2,543
Post-employment benefits	**316**	311
	2,650	2,854

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

19. 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			
Unobservable	**30June 2021 (Unaudited)**	31 December 2020 (Audited)	Fair value hierarchy	Valuation techniques and key inputs
Commodity derivative contracts	**RMB1,823,000**	RMB4,025,000	Level 1	Quoted bid prices in NYMEX Future Exchange
Listed shares	**RMB1,054,000**	nil	Level 1	Quoted bid prices in respective stock exchange markets
Structured investment products	**nil**	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	**RMB52,633,000**	RMB45,821,000	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 condensed 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.