GHW International

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 9933

INTERIM REPORT 2020

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

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

Independent Non-executive Directors:

Sun Hongbin
Wang Guangji
Zheng Qing

AUDIT COMMITTEE

Zheng Qing (Chairlady)
Wang Guangji
Sun Hongbin

REMUNERATION COMMITTEE

Zheng Qing (Chairlady)
Zhuang Zhaohui
Sun Hongbin

NOMINATION COMMITTEE

Sun Guibin (Chairman)
Zheng Qing
Sun Hongbin

RISK MANAGEMENT COMMITTEE

Zhou Chunnian (Chairman)
Chen Hua
Sun Guibin

AUTHORISED REPRESENTATIVES

Yin Yanbin
Wu Wing Hou

COMPANY SECRETARY

Wu Wing Hou

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
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Hong Kong

CORPORATE INFORMATION

LEGAL ADVISER

Loeb & Loeb LLP

PRINCIPAL BANKERS

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

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
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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 providing 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.

During the six months ended 30 June 2020, our financial performance was significantly affected by the outbreak of the novel coronavirus (COVID-19). The COVID-19 outbreak brought a negative impact to the demand of our third-party manufactured trading products due to the compulsory temporary shutdown of our downstream customers' factories. In addition, certain pandemic control measures have been undertaken by the PRC central government and various provincial or municipal governments including implementation of travel restrictions and extension of national holidays, which had significantly disrupted the local economy. Due to the continuous outbreaks of COVID-19 in Asia, Europe, the US and other western countries, our export sales volume of these products also decreased. As a result, trading activities were highly affected and the sales volume of our third-party manufactured trading products had decreased.

Nevertheless, the performance of our self-manufacturing products, specifically choline chloride, in our animal nutrition chemicals segments had stayed strong. Upon completion of the production facilities upgrade and technological enhancement on the production processes, our production capacity for choline chloride and betaine at our Tai'an production plant in 2019 has reached approximately 150,000 tonnes and 18,000 tonnes, respectively. We aim to increase our market share for choline chloride and betaine. In addition, we believe that our marketing efforts also contributed to the increase in sales volume of choline chloride and betaine over the past few years. Benefiting from the economy of scale, the Group maintained its competitiveness in the market and was able to increase its choline chloride market share in the six months ended 30 June 2020 with an increasing gross profit margin. However, due to the outbreak of COVID-19 in the western countries since the second quarter of 2020, the export sales of our choline chloride fluctuated in June 2020 and it is expected that the pandemic will still significantly affect the performance of our animal nutrition segments in the coming months.

BUSINESS REVIEW

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 involves the production of cosmetics, emulsifiers and lubricants.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

FINANCIAL REVIEW

Revenue

The table below sets forth the breakdown of our revenue by business segments during the six months ended 30 June 2020:

Total revenue by business segments

	For the six months ended 30 June			
	2020		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue
Polyurethane materials	234,693	26.3%	331,905	35.5%
Animal nutrition chemicals	357,230	40.0%	278,906	29.8%
Fine chemicals	91,785	10.3%	126,471	13.5%
Pharmaceutical products and intermediates	204,774	22.9%	193,283	20.7%
Sub-total	888,482	99.5%	930,565	99.5%
Others (note)	4,305	0.5%	4,708	0.5%
Total	892,787	100.0%	935,273	100.0%

	For the six months ended 30 June			
	2020		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue
Self-manufactured chemicals	593,237	66.4%	528,453	56.5%
Chemicals produced by third parties	295,245	33.1%	402,112	43.0%
Sub-total	888,482	99.5%	930,565	99.5%
Others (note)	4,305	0.5%	4,708	0.5%
Total	892,787	100.0%	935,273	100.0%

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

Polyurethane materials

Our revenue generated from sales of polyurethane materials decreased from approximately RMB331.9 million for the six months ended 30 June 2019 to approximately RMB234.7 million for the six months ended 30 June 2020, primarily due to both the decrease in our sales volume and average selling prices of the major products in this segment, including polymeric methylene diphenyl diisocyanate ("**polymeric MDI**") and toluene diisocyanate ("**TDI**"), as well as the decrease in sales volume of polymer polyether.

MANAGEMENT DISCUSSION AND ANALYSIS

Our sales volume of polymeric MDI, TDI and polymer polyether decreased from approxiamtely 14,642 tonnes, 3,723 tonnes and 5,410 tonnes to 11,635 tonnes, 2,617 tonnes and 4,894 tonnes, respectively. The decrease in sales volume was primarily due to the outbreak of the COVID-19 in the PRC since the latter half of January 2020 and services outbreak in the western countries in the second quarter of 2020. The COVID-19 outbreak brought a negative impact to the demand of our polyurethane materials products due to the compulsory temporary shutdown of our downstream customers' factories. In addition, certain measures have been undertaken by the PRC central government and various provincial or municipal governments including implementation of travel restrictions and extension of national holidays, which had significantly disrupted the local economy. Due to the continuous outbreaks of COVID-19 in Asia, Europe, the US and other western countries, the demand of our polyurethane materials in other countries as well as our export sales volume decreased. As a result, trading activity was highly affected and the sales volume of our polyurethane materials products had decreased.

Our average selling price of polymeric MDI and TDI decreased from approximately RMB12,100 and RMB12,000 per tonne for the six months ended 30 June 2019 to approximately RMB10,200 and RMB9,200 per tonne for the six months ended 30 June 2020, primarily due to (i) the decrease in crude oil price, being the raw material of polymeric MDI and TDI, leading to the decrease in purchase cost as well as the market price of these products; (ii) the increase in market supply starting from 2019 due to the commencement of production of the new TDI production facilities with annual production capacity of approximately 300,000 tonnes by the largest PRC polyurethane materials manufacturer and the resumption of production of production facilities with annual production capacity of 50,000 tonnes in Huludao by a PRC manufacturer; and (iii) the decrease in demand of polymeric MDI and TDI from our downstream customers, such as customers from construction, automotive, home appliances and paint and dye industries, resulting from the outbreak of COVID-19 as mentioned above.

Animal nutrition chemicals

Our revenue generated from sales of animal nutrition chemicals increased from approximately RMB278.9 million for the six months ended 30 June 2019 to approximately RMB357.2 million for the six months ended 30 June 2020, primarily due to the increase in sales volume of choline chloride and betaine.

During the six months ended 30 June 2020, sales of choline chloride accounted for approximately 85% of our revenue under the animal nutrition chemicals segment. The revenue generated from sales of choline chloride increased from approximately RMB243.7 million for the six months ended 30 June 2019 to approximately RMB303.9 million for the six months ended 30 June 2020, primarily due to the increase in both of our domestic and export sales volume of choline chloride in the period. Our sales volume of choline chloride and betaine increased from approximately 53,445 tonnes and 3,710 tonnes for the six months ended 30 June 2019 to approximately 72,015 tonnes and 6,557 tonnes for the six months ended 30 June 2020, respectively. Upon completion of the production facilities upgrade and technological enhancement on the production processes, our production capacity for choline chloride and betaine at our Tai'an production plant in 2019 has reached approximately 150,000 tonnes and 18,000 tonnes, respectively. We aim to increase our market share for choline chloride and betaine. In addition, we believe that our marketing efforts also contributed to the increase in sales volume of choline chloride and betaine over the past few years. Benefiting from the economy of scale, the Group maintained its competitiveness in the market and was able to increase its choline chloride market share in 2020 with an increasing gross profit margin. However, due to the outbreak of COVID-19 in the western countries since the second quarter of 2020, the export sales of our choline chloride fluctuated in June 2020 and it is expected that the pandemic will still significantly affect the performance of our animal nutrition segments in the coming months.

Fine chemicals

Our revenue generated from sales of fine chemicals decreased from approximately RMB126.5 million for the six months ended 30 June 2019 to approximately RMB91.8 million for the six months ended 30 June 2020, primarily due to the outbreak of COVID-19 as mentioned above resulting in the decrease in demand of our fine chemicals such as propionic acid, caster oil and isooctanoic acid.

MANAGEMENT DISCUSSION AND ANALYSIS

Pharmaceutical products and intermediates

Our revenue generated from sales of pharmaceutical products and intermediates slightly increased from approximately RMB193.3 million for the six months ended 30 June 2019 to approximately RMB204.8 million for the six months ended 30 June 2020, primarily due to the increase in average selling prices of our iodine and iodine derivatives, as well as the increase in our sales volume of our iodine derivatives, partially offset by the decrease in sales of cefpodoxime dispersible tablets.

The increase in our average selling price of our iodine and iodine derivatives was primarily due to the increase in purchase cost of iodine from Chile, i.e. one of the major iodine export countries in the world. The increase in sales volume of our iodine derivatives was primarily due to the increasing demand for iodine derivatives from our existing customers in the downstream industries, especially in the contrast agent industry, which may use potassium iodate to manufacture contrast medium in image diagnosis technology.

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

The table below sets forth our total sales in terms of geographical locations of our customers during the six months ended 30 June 2020:

Total revenue by geographical locations

	For the six months ended 30 June			
	2020		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue
PRC	644,131	72.2%	718,752	76.8%
Europe	104,299	11.7%	65,413	7.0%
Other countries in Asia (excluding the PRC and Vietnam)	43,888	4.9%	41,069	4.4%
Vietnam	55,796	6.2%	69,936	7.5%
Others	44,673	5.0%	40,103	4.3%
Total	892,787	100.0%	935,273	100.0%

Our revenue derived from the PRC contributed approximately 76.8% and 72.2% to our total revenue for the six months ended 30 June 2019 and 2020, respectively. Given that the revenue derived from the PRC constitutes a substantial portion of our total revenue, the fluctuations in revenue of sales in the PRC for our business segments of polyurethane materials, fine chemicals and animal nutrition chemicals are in line with the fluctuations in the overall revenue of each of these segments.

Our revenue derived from Europe increased from approximately RMB65.4 million for the six months ended 30 June 2019 to approximately RMB104.3 million for the six months ended 30 June 2020, primarily due to the increase in sales of our animal nutrition chemicals to our existing customers as well as new customers, especially in Russia, France, Spain and Belarus after our increase in production capacity.

Our revenue derived from Asia (excluding the PRC and Vietnam) slightly increased from approximately RMB41.1 million for the six months ended 30 June 2019 to RMB43.9 million for the six months ended 30 June 2020, respectively, primarily resulted from the net effect of the (i) decrease in revenue from sales of polyurethane materials and fine chemicals due to the outbreak of COVID-19 as mentioned above; and (ii) increase in revenue from sales of animal nutrition chemical due to sales to new customers.

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Our revenue derived from Vietnam decreased from approximately RMB69.9 million for the six months ended 30 June 2019 to approximately RMB55.8 million for the six months ended 30 June 2020, primarily resulted from the decrease in revenue from sales of polyurethane materials due to the outbreak of COVID-19 as mentioned above.

Cost of sales

The following table sets forth, for the periods indicated, a breakdown of our cost of sales by nature:

Total cost of sales by nature

	For the six months ended 30 June			
	2020		2019	
	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales
Cost of raw materials and inventories	723,849	93.7%	771,358	94.8%
Manufacturing overheads	23,719	3.1%	17,572	2.2%
Staff costs	14,597	1.9%	14,211	1.7%
Depreciation and amortisation	9,567	1.2%	6,485	0.8%
Others	517	0.1%	3,683	0.5%
Total	772,249	100.0%	813,309	100.0%

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

Our cost of raw materials and inventories decreased from approximately RMB813.3 million for the six months ended 30 June 2019 to approximately RMB772.2 million for the six months ended 30 June 2020. The decrease in our cost of raw materials and inventory was mainly driven by the decrease in cost of raw materials and inventories incurred in polyurethane materials segment and fine chemicals segment as a result of (i) decreasing sales volume of the products; and (ii) decreasing price of the raw materials of these products such as crude oil, leading to the decreasing market price of these trading products, offset by the increase in cost of raw materials and inventories in pharmaceutical products and intermediates segment, which was in line with the increase in revenue in the respective segment.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020:

Total gross profit by business segments

	For the six months ended 30 June			
	2020		2019	
	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %
Polyurethane materials	20,785	8.9%	42,277	12.7%
Animal nutrition chemicals	67,108	18.8%	41,217	14.8%
Fine chemicals	6,552	7.1%	13,672	10.8%
Pharmaceutical products and intermediates	25,557	12.5%	24,090	12.5%
Others	536	12.5%	708	15.0%
Total	120,538	13.5%	121,964	13.0%

Our gross profit slightly decreased from approximately RMB122.0 million for the six months ended 30 June 2019 to approximately RMB120.5 million for the six months ended 30 June 2020. Our overall gross profit margin slightly increased from approximately 13.0% for the six months ended 30 June 2019 to approximately 13.5% for the six months ended 30 June 2020, which was mainly due to the increase in gross profit and gross profit margin derived from animal nutrition chemicals segment, which generated the highest gross profit margin among all segments in 2020, as a result of the benefit from economy of scale upon the increase in our production capacity of choline chloride, offset by the decrease in gross profit margin of polyurethane materials segment and fine chemical segment as a result of decrease in demand of the products due to the outbreak of COVID-19 as mentioned above.

Other income and expenses

Our other income and expenses primarily comprises one-off and unconditional subsidies from the relevant government authority and bank interest income. It increased from approximately RMB1.7 million for the six months ended 30 June 2019 to approximately RMB3.0 million for the six months ended 30 June 2020. The increase in our other income and expenses was mainly due to the increase in bank interest income from approximately RMB0.2 million to approximately RMB1.9 million as a result of increasing average bank balances and restricted bank deposits during the period.

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 dollar ("**US$**") against Renminbi ("**RMB**") as the functional currency of our subsidiaries in the PRC is RMB while their export sale to customers and purchase from overseas suppliers were mainly settled in US$; (ii) loss on disposal of plant and equipment; and (iii) net gain arising on fair value change of financial assets measured as fair value through profit or loss ("**FVTPL**"). Our Group recorded net other gains of approximately RMB2.8 million for the six months ended 30 June 2019 and net other gains of approximately RMB1.2 million for the six months ended 30 June 2020, respectively. Such change in our net other gains and losses was mainly because of (i) an increase in loss on disposal of plant and equipment of approximately RMB2.0 million mainly derived from our Tai'an production plant; and (ii) gain on fair value change of financial assets at FVTPL amounting to approximately RMB0.8 million, which mainly related to crude oil derivative contracts and foreign exchange rate future contracts.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB46.1 million for the six months ended 30 June 2019 to approximately RMB54.4 million for the six months ended 30 June 2020. The increase in our selling and distribution expenses was primarily due to an increase in sales volume of our animal nutrition products, especially our export sales of choline chloride, which outweighs the decrease in sales volume of polyurethane materials and fine chemicals, and led to increase in related transportation costs, port charges and storage costs.

Administrative expenses

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

Our administrative expenses slightly increased from approximately RMB36.9 million for the six months ended 30 June 2019 to approximately RMB39.4 million for the six months ended 30 June 2020. The increase in our administrative expenses was primarily due to increases in accrued audit fees and other professional service fees subsequent to the listing (the "**Listing**") of our shares (the "**Shares**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), partially offset by the decrease in travelling expenses due to the travel restriction and other control measures imposed after the outbreak of COVID-19.

Research and development expenses

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

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

Our research and development expenses increased from approximately RMB14.1 million for the six months ended 30 June 2019 to approximately RMB16.8 million for the six months ended 30 June 2020. The increase in our research and development expenses was primarily due to an increase in cost of raw materials of approximately RMB2.5 million because of the increase in cost of raw materials used for technological enhancement of two iodine derivatives products, namely potassium iodate and calcium iodate, of approximately RMB2.2 million, whereas there was only one iodine derivatives product underwent technological enhancement in the corresponding period in last year.

Listing expenses

We incurred listing expenses of approximately RMB3.5 million and nil for the six months ended 30 June 2019 and 2020, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

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

Our finance costs increased from approximately RMB7.4 million for the six months ended 30 June 2019 to approximately RMB13.7 million for the six months ended 30 June 2020. The increase in our finance costs was primarily due to (i) an increase in the interest on our bank borrowings and loan from a related company from approximately RMB6.1 million for the six months ended 30 June 2019 to approximately RMB10.9 million for the six months ended 30 June 2020 as a result of the increase in the interest bearing bank and other borrowings to approximately RMB476.3 million as at 30 June 2020; and (ii) an increase in the interest on our discounted bills from approximately RMB1.1 million for the six months ended 30 June 2019 to approximately RMB2.4 million for the six months ended 30 June 2020 resulting from increase in discounting of the bank issued bill receivables to banks in the amount from approximately RMB53.7 million as at 30 June 2019 to approximately RMB125.0 million as at 30 June 2020, and the carrying amount of bill receivables were the same as the carrying amounts of associated liabilities, i.e. borrowings.

Income tax expenses

Our income tax expenses decreased from approximately RMB1.3 million for the six months ended 30 June 2019 to approximately RMB0.4 million for the six months ended 30 June 2020. The decrease in our income tax expenses was primarily due to (i) the decrease in current tax from approximately RMB2.3 million for the six months ended 30 June 2019 to approximately RMB0.5 million for the six months ended 30 June 2020, which is in line with our decrease in profit before taxation and (ii) the overprovision of tax in 2019 amounting to approximately RMB1.0 million derived from Taian Havay Group Co., Ltd. ("**Havay Group**"), being a subsidiary of the Company, as a result of finalising the deductible research and development expenses as approved by the tax authority in 2019.

(Loss) profit for the period

As a result of the foregoing, the Group incurred a loss for the period of approximately RMB0.7 million for the six months ended 30 June 2020 when compared to a profit for the period of approximately RMB16.8 million for the six months ended 30 June 2019.

PROSPECTS

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

Upon the outbreak of the COVID-19 since the latter half of January 2020, there had been a significant negative impact on the global and the PRC's economy which had had/will continue to have an adverse effect on our business. Especially after the global outbreak of COVID-19 since the second quarter in 2020, the demands of our animal nutrition chemicals products in the Europe and the America may be reduced. The trade war between the US and the PRC (the "**Trade War**") may further affect our current sales market in the western countries.

In the opinion of the board (the "**Board**") of the directors (the "**Directors**"), the impact of the COVID-19 outbreak and Trade War to the Group is still uncertain up to the date of this report. Management will remain alert to the development of the pandemic and take measures as appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 June 2020, the Group's total assets and bank balances and cash amounted to approximately RMB1,067.1 million (31 December 2019: RMB855.2 million) and RMB43.0 million (31 December 2019: RMB35.7 million), respectively. The bank balances and cash were denominated in RMB.

As at 30 June 2020, the total amount of borrowings and loan from a related company were approximately RMB601.2 million (31 December 2019: borrowings RMB501.5 million). As at 30 June 2020, borrowings amounting to approximately RMB569.0 million (31 December 2019: RMB454.9 million) are carried at fixed interest rates ranging from nil to 10.5% (31 December 2019: from 3.0% to 8.6%) per annum and repayable from 2020 to 2022 (31 December 2019: from 2020 to 2022), and borrowings amounting to approximately RMB32.3 million (31 December 2019: RMB46.6 million) are carried at variable interest rates ranging from 4.7% to 5.7% (31 December 2019: from 4.7% to 7.8%) per annum and repayable from 2020 to 2021 (31 December 2019: repayable in 2020).

As at 30 June 2020, the gearing ratio, which was calculated by dividing the total interest bearing borrowings less liabilities associated with the recognised transferred bank issued bills by total equity as at 30 June 2020, was 2.7 (31 December 2019: 3.9). The decrease was mainly due to the increase in equity upon Listing.

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 aggregate nominal value of the shares issued by Global Offering is HK$2,500,000. The allotees, being individual(s), institutional or professional investor(s) procured by the Underwriters (as defined in the Company's prospectus dated 31 December 2019 (the "Prospectus")) to subscribe for any of the Shares pursuant to the Placing Underwriting Agreement and the Public Offer Underwriting Agreement (as defined in the Prospectus), who and whose ultimate beneficial owners were third parties independent of and not connected with the Company and its connected persons and their respective associates.

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

Since the Listing Date and up to 30 June 2020, the net proceeds from the Listing had been applied as follows:

Business objective as stated in the Prospectus	Percentage of total net proceeds	Planned use of net proceeds HK$'million	Planned use of net proceeds RMB'million	Actual use of net proceeds during the period from the Listing Date to 30 June 2020 RMB'million	Proceeds unused as at 30 June 2020 RMB'million	Planned timeline as stated in the Prospectus	Expected time line
Initial establishment of the New Production Plant	17.2%	11.3	10.1	0.5	9.6	Complete in the second half of 2020	Complete in the first half of 2021
Construction of production facilities at the New Production Plant for the production of trimethylamine	60.4%	39.8	35.4	0.9	34.5	Complete in the second half of 2021	Complete in the second half of 2021
Construction of pilot plant at the New Production Plant for the production of pharmaceutical intermediates	10.2%	6.7	6.0	0.0	6.0	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 2021
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 2020
General working capital	9.2%	6.1	5.4	4.3	1.1	N/A	N/A
Total	100.0%	65.9	58.6	5.7	52.9		

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 kicked-off during the six months ended 30 June 2020 (details of the Group's capital commitment disclosed in section headed "Capital Commitment" below).

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

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.

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 RMB52.9 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 RMB. The appreciation or devaluation of RMB against US$ may have impact on the operating results of the Group.

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

Interest Rate Risk

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Credit Risk

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

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

The credit risk on bill receivables at fair value through other comprehensive income are limited as those bills are issued by banks with high credit ratings assigned by international credit-rating agencies and no history of default in the past, thus no loss allowance provision for bills was recognised during the 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 seeks to maintain strict control over its outstanding receivables and has its credit control policy to minimise the credit risks. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by management.

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.

Liquidity Risk

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

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the period. The Group strives to reduce credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

FOREIGN EXCHANGE EXPOSURE

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

CAPITAL EXPENDITURES

During the period, the Group's capital expenditures consisted of additions to property, plant and equipment and construction in progress in our operations amounting to approximately RMB20.4 million (2019: RMB29.7 million).

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENT

As at 30 June 2020, the Group had a capital commitment of approximately RMB53.0 million (31 December 2019: RMB4.2 million). The capital commitments primarily related to the establishment of the New Production Plant and purchase of machinery and equipment for existing usage. We intend to fund these commitments with cash generated from our operations, bank borrowings and proceeds from the Global Offering.

PLEDGE OF ASSETS

As at 30 June 2020, save as (i) restricted bank deposits of approximately RMB160.0 million (31 December 2019: RMB108.8 million); and (ii) right-of-use assets and property, plant and equipment of approximately RMB17.6 million and RMB7.9 million respectively (31 December 2019: right-of-use assets and property, plant and equipment of approximately RMB17.7 million and RMB8.1 million respectively) to secure the borrowings, the Group did not pledge any other assets.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities which would have a material adverse effect on the financial performance of the Group (31 December 2019: Nil).

DIVIDEND

The Board has resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had a total of 883 (31 December 2019: 886) employees, including the Directors. Total staff costs (including Directors' remuneration) was approximately RMB34.2 million (2019: RMB32.6 million) for the six months ended 30 June 2020.

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

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

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

SIGNIFICANT INVESTMENTS

During the six months ended 30 June 2020, the Group did not hold any significant investment or capital assets (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL EXPENDITURES

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

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group has not acquired nor disposed of any of its subsidiaries during the six months ended 30 June 2020.

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 since the latter half of January 2020, 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 was listed on the Stock Exchange on 21 January 2020. 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**") with effect from the Listing Date. From the Listing Date and up to the date of this interim report, 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 2020, the Company has not separated the roles of the Chairman of the Board and the Chief Executive Officer of the Company. Mr. Yin Yanbin ("**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 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 with effect from 21 January 2020.

Having made specific enquiry of all Directors, each Director has confirmed that he/she has complied with the required standard set out in the Model Code for the period from the Listing Date to the date of this report.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the Prospectus, the section headed "Related Party Transactions/Exempted Continuing Connected Transactions" in this report and notes 13 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 2020.

Save as disclosed in the Prospectus, 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 2020.

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 note 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.76 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. As at 30 June 2020, the outstanding loan from Hanhe Enterprises amounting to RMB20,000,000. Detail terms of the Loan Facility were disclosed in note 13 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 the controlling shareholder of the Company and is therefore connected person of the Company. Accordingly, the Loan Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Loan Facility have been reviewed by the Independent Non-executive Directors who have confirmed that the transactions have entered into: (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (c) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of Shareholders as a whole. Accordingly, the Loan Facility is fully exempted from the shareholders' approval, annual review and all disclosure requirements under Rule 14A.76 of the Listing Rules.

Save 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 2020, the interests and short positions of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) which were required, to be recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code 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 2020, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required, to be recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the 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.

OTHER INFORMATION

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

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

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

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

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

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

As at 30 June 2020, no share options were granted, cancelled, lapsed or forfeited under the Share Option Scheme and there were no outstanding share options under the Share Option Scheme as at 30 June 2020.

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 2020.

OTHER INFORMATION

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

As at 30 June 2020, so far as is known to the Directors or chief executive of the Company, the following persons (other than Directors or chief executive of the Company), who had interests or short positions in the shares and the underlying Shares which were recorded in the register required to be kept under Section 336 of the SFO were as follows.

Positions in the Shares

Name	Capacity/ Nature of Interests	Number of Shares held		Approximate Shareholding Percentage	
		Long Position	Short Position	Long Position	Short Position
Commonwealth B	Beneficial owner	375,000,000	Nil	37.50%	Nil
Commonwealth Yanbin	Interest in controlled Corporation *(Note 1)*	375,000,000	Nil	37.50%	Nil
Commonwealth Happy Elephant	Beneficial owner	178,141,500	Nil	17.81%	Nil
Commonwealth YYB	Interest in controlled Corporation *(Note 2)*	178,141,500	Nil	17.81%	Nil
Ms. Wu	Interest of spouse *(Note 3)*	553,141,500	Nil	55.31%	Nil
Commonwealth GHW 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 2020, no person, other than the Directors and Chief Executive of the Company, whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company" above, had registered an interest or short position in the Shares or underlying Shares that was required to be recorded pursuant to Section 336 of the SFO.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the six months ended 30 June 2020 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.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date and up to the date of this report.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2020 (2019: Nil). No dividend was paid during the period under review.

INTEREST OF THE COMPLIANCE ADVISER

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

AUDIT COMMITTEE AND REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company established the Audit Committee 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 2020 with the management, and that adequate disclosures have been made with no disagreement by the Audit Committee.

On behalf of the Board

Yin Yanbin
Chairmen and Chief Executive Officer
Hong Kong, 25 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Revenue	4	892,787	935,273
Cost of sales		(772,249)	(813,309)
Gross profit		120,538	121,964
Other income and expenses	5	2,989	1,719
Other gains and losses	5	1,248	2,826
Impairment losses, net of reversal		(797)	(428)
Selling and distribution expenses		(54,434)	(46,065)
Administrative expenses		(39,384)	(36,920)
Research and development expenses		(16,778)	(14,130)
Listing expenses		—	(3,500)
Finance costs		(13,688)	(7,396)
(Loss) profit before taxation	6	(306)	18,070
Taxation	7	(389)	(1,263)
(Loss) profit for the period		(695)	16,807
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		(1,498)	(1,770)
Fair value loss on bill receivables at fair value through other comprehensive income ("FVTOCI")		(127)	—
Income tax expense relating to an item that may be reclassified to profit or loss		14	—
Other comprehensive expense for the period, net of income tax		(1,611)	(1,770)
Total comprehensive (expense) income for the period		(2,306)	15,037
(Loss) profit for the period attributable to: owners of the Company		(695)	16,807
Total comprehensive (expense) income attributable to: owners of the Company		(2,306)	15,037
(Loss) earnings per share - Basic (RMB per share)	9	(0.0007)	0.022

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	219,226	212,592
Right-of-use assets	10	58,211	58,216
Rental deposits		599	626
Finance lease receivable		229	452
Deferred tax assets		366	475
		278,631	272,361
Current assets			
Inventories		304,091	166,797
Financial assets at FVTPL		480	—
Finance lease receivable		477	477
Trade receivables	11	151,495	161,426
Bill receivables at FVTOCI	12	72,128	54,802
Other receivables and prepayments		56,571	54,347
Amounts due from immediate holding companies	13	—	70
Tax recoverable		280	427
Restricted bank deposits		160,000	108,816
Bank balances and cash		42,991	35,716
		788,513	582,878
Current liabilities			
Trade and bill payables	14	195,020	154,912
Other payables and accrued charges		40,441	53,024
Lease liabilities		5,980	5,712
Contract liabilities		17,349	13,370
Amount due to a shareholder	13	—	5
Tax payables		447	2,395
Borrowings	15	418,302	311,987
Dividend payables		—	1,800
		677,539	543,205
Net current assets		110,974	39,673
Total assets less current liabilities		389,605	312,034

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Non-current liabilities			
Borrowings	15	162,941	189,510
Loan from a related company	13	20,000	—
Lease liabilities		5,868	6,193
Deferred tax liabilities		1,486	1,769
		190,295	197,472
Net assets		199,310	114,562
Capital and reserves			
Share capital	16	8,844	9
Reserves		190,466	114,553
Total equity		199,310	114,562

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note a)	Safety reserve RMB'000 (Note b)	Translation reserve RMB'000	Statutory reserve RMB'000 (Note c)	FVTOCI reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2019 (audited)	69	–	56,568	–	(4,960)	35,044	–	2,273	88,994
Profit for the period	–	–	–	–	–	–	–	16,807	16,807
Other comprehensive expense for the period	–	–	–	–	(1,770)	–	–	–	(1,770)
Total comprehensive income (expense) for the period	–	–	–	–	(1,770)	–	–	16,807	15,037
Effect of re-denomination of shares (note 16)	(60)	–	60	–	–	–	–	–	–
At 30 June 2019 (audited)	9	–	56,628	–	(6,730)	35,044	–	19,080	104,031
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 (note 16)	8,835	78,219	–	–	–	–	–	–	87,054
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

Note a: Capital reserve represented (i) the capital injection from owners of Nanjing Goldenhighway International Supply Chain Management Company Limited ("**GHW International SCM**") 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 Havay Group related to reorganisation amounting to RMB1,717,000; and (iv) deemed contribution from a shareholder in relation to a waiver of amount due to a shareholder amounting to RMB444,000.

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 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
NET CASH USED IN OPERATING ACTIVITIES	(95,629)	(50,970)
INVESTING ACTIVITIES		
Interest received	1,934	224
Proceeds from disposals of property, plant and equipment	33	117
Purchases of property, plant and equipment	(22,886)	(27,688)
Deposit for acquisition of land use right	—	(3,840)
Net refund (payments) for rental deposits	27	(202)
Proceeds from release of restricted bank deposits	108,816	25,850
Placement of deposits with future brokers	(2,278)	—
Placements of restricted bank deposits	(160,000)	(27,938)
Proceeds from finance lease receivable	245	—
Net cash used in investing activities	(74,109)	(33,477)
FINANCING ACTIVITIES		
Dividend paid	(1,800)	(7,059)
Issue of shares	112,757	—
Issue costs paid	(16,650)	(2,263)
Interest paid	(13,688)	(7,471)
Repayments of lease liabilities	(3,180)	(1,775)
Repayments of bank loans	(234,679)	(159,314)
New bank loans raised	314,092	284,951
Loan from a related company	20,000	—
Repayments from shareholders	70	—
Repayments to a shareholder/former shareholders	(5)	(19,139)
Net cash from financing activities	176,917	87,930
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,179	3,483
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	35,716	30,261
Effects of foreign exchange rate change	96	(58)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	42,991	33,686

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. GENERAL

The Company is a public limited company incorporated in 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 spouse of Mr. Yin. The addresses of the Company's registered office and the principle place of business are Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and 6th Building, Xincheng Science Park, No. 69 Aoti Street, Nanjing, PRC, respectively.

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

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. The Group stopped its interprovincial delivery services of some of its products during the reporting period in an effort to contain the spread of the pandemic. On the other hand, the PRC and Canada local governments have announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic. As such, the financial positions and performance of the Group were affected in different aspects, including reduction of revenue, increase government subsidies in relation to the pandemic and increase in interest-free borrowings.

2. REORGANISATION, BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Historically, the operation of the Group was carried out by GHW International SCM and its subsidiaries. In preparation for the Listing on the Main Board of the Stock Exchange, the entities now comprising the Group underwent a group reorganisation (the "**Reorganisation**"), as more fully explained in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus. The Reorganisation was completed on 31 July 2018 by interspersing the Company, GOHI Int'L Limited, GHW Holdings Limited between the shareholders and GHW International SCM and the Company became the holding company of the companies now comprising the Group.

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 2020 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2019.

In the current interim period, the Group has applied the amendments to IFRSs issued by the IASB, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements. The application of the amendments to IFRSs in the current period has had no material impact on the Group's 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 2020

4. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Types of goods		
Animal nutrition chemicals	357,230	278,906
Polyurethane materials	234,693	331,905
Pharmaceutical products and intermediates	204,774	193,283
Fine chemicals	91,785	126,471
Others	4,305	4,708
	892,787	935,273
Timing of revenue recognition		
A point in time	892,787	935,273

The Group's revenue is 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	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
PRC	644,131	718,752
Europe	104,299	65,413
Vietnam	55,796	69,936
Other countries in Asia (excluding PRC and Vietnam)	43,888	41,069
Others	44,673	40,103
	892,787	935,273

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 2020

5. OTHER INCOME AND EXPENSES AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Other income and expenses		
Bank interest income	1,934	224
Government grants (note i)	1,016	1,028
Rental income	39	249
Interest income on finance lease receivable	22	—
Others	(22)	218
	2,989	1,719
Other gains and losses		
Net exchange gains	2,542	2,966
Net gain arising on financial assets measured as FVTPL		
– commodity future contracts (note ii)	667	—
– foreign currency future contracts (note iii)	172	—
Losses on disposals of plant and equipment	(2,198)	(197)
Others	65	57
	1,248	2,826

Notes:

(i) The relevant government authority granted one-off and unconditional subsidies to the Group amounting to RMB511,000 and RMB505,000 (2019: RMB1,028,000 and nil) in relation to the Group's contribution in local district and COVID-19 respectively, which were recognised in the profit or loss in the period when they received.

(ii) During the six months ended 30 June 2020, net gains on commodity derivative contracts represented realised gains of RMB194,000 (2019: nil) and unrealised gains of RMB473,000 (2019: nil) on changes in fair value of commodity derivative contracts.

(iii) During the six months ended 30 June 2020, net gains on foreign currency future contracts represented realised gains of RMB168,000 (2019: nil) and unrealised gains of RMB4,000 (2019: nil) on changes in fair value of foreign currency future contracts.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

6. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
(Loss) profit before taxation has been arrived at after charging (crediting) to profit and loss:		
Cost of inventories recognised as expenses	772,180	813,309
Depreciation of property, plant and equipment	12,115	8,912
Depreciation of right-of-use assets	2,660	2,499
Total depreciation and amortisation	14,775	11,411
Capitalised as cost of inventories manufactured	(10,385)	(6,280)
	4,390	5,131
Write-down of inventories	69	3,505

7. TAXATION

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Current tax	466	2,323
Under (over) provision in prior years	83	(967)
	549	1,356
Deferred tax	(160)	(93)
Total	389	1,263

8. DIVIDENDS

No dividend was paid or declared by the Company since its incorporation, the Directors did not propose interim dividend for the period subsequent to the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

9. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
(Loss) earnings:		
(Loss) earnings for the purposes of calculating basic (loss) earnings per share attributable to the owners of the Company	(695)	16,807

	Six months ended 30 June	
	2020 '000	2019 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	971,311	750,000

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and Capitalisation Issue (as defined in note 16) had been effective on 1 January 2019.

No diluted earnings per share is presented as there was no potential dilutive shares.

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 RMB2,231,000 (2019: RMB314,000) for cash proceeds of RMB33,000 (2019: RMB117,000), resulting in a loss on disposal of RMB2,198,000. (2019: RMB197,000).

In addition, during the current interim period, the Group acquired property, plant and equipment with an aggregate amount of RMB20,446,000 (2019: RMB29,684,000).

For both periods, the Group leases various offices, warehouses and parking spaces for its operations. Lease contracts are entered into for fixed term of 1 month to 70 months. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

During the current interim period, the Group entered into a new lease agreement for the use of offices and warehouses for 2 to 5 years (2019: use of offices, warehouses and parking spaces for its operations for 1 to 6 years). The Group is required to make fixed monthly payments. On lease commencement, the Group recognised RMB3,123,000 (2019: RMB6,740,000) of right-of-use asset and lease liability.

As at 30 June 2020, the Group has pledged buildings, plant and machinery and motor vehicles with a total net book value of approximately RMB7,908,000 (31 December 2019: RMB8,106,000) to secure general banking facilities granted to the Group.

As at 30 June 2020, the Group has pledged leasehold land with a net book value of approximately RMB17,520,000 (31 December 2019: RMB17,727,000) to secure general banking facilities granted to the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

11. TRADE RECEIVABLES

	As at	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	160,100	169,234
Less: allowance for credit losses	(8,605)	(7,808)
	151,495	161,426

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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
0-30 days	88,531	102,043
31-60 days	42,190	38,661
61-90 days	12,876	7,941
Over 90 days	7,898	12,781
	151,495	161,426

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Impairment loss recognised in respect of trade receivables	797	428

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 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

During the six months ended 30 June 2020, the Group provided impairment allowance of RMB7,634,000 (2019: RMB428,000). In particular a specific loss allowance of 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 2020, the Group reversed the impairment allowance of RMB6,837,000 (2019: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

11. TRADE RECEIVABLES (Continued)

The carrying amounts of the Group's trade receivables that were denominated in foreign currencies are as follows:

	As at	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
US$	31,223	24,794

12. BILL RECEIVABLES AT FVTOCI

	As at	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Bill receivables at FVTOCI	72,128	54,802

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

	As at	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
0-180 days	65,618	54,802
Over 180 days	6,510	—
	72,128	54,802

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

13. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANIES/AMOUNT DUE TO A SHAREHOLDER/LOAN FROM A RELATED COMPANY

Amounts due from immediate holding companies

	As at	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Commonwealth B Limited	—	36
Commonwealth GHW Limited	—	17
Commonwealth Happy Elephant Limited	—	16
Commonwealth Feibear Limited	—	1
	—	70

Amount due to a shareholder

	As at	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Name		
Mr. Yin Yanbin	—	5

Loan from a related company

	As at	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Name		
Hanhe Enterprises (note)	20,000	—

Note:

On 24 March 2020, a loan agreement was entered into between Hanhe Enterprises, an indirectly-owned subsidiary of Mr. Yin, as lender and Havay Group as borrower, pursuant to which Hanhe Enterprises have agreed to provide a loan facility to Havay Group in the aggregate amount of RMB110,000,000 at interest rate of 2% per annum with a term of 2 years.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

14. TRADE AND BILL PAYABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade payables	180,055	128,069
Bill payables	14,965	26,843
Total trade and bill payables	195,020	154,912

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
0-180 days	14,965	26,843

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 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
0-30 days	117,343	81,242
31-60 days	33,765	28,608
61-90 days	11,513	5,431
Over 90 days	17,434	12,788
	180,055	128,069

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
US$	25,231	20,682
European dollar ("EUR")	9,988	425
	35,219	21,107

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

15. BORROWINGS

	As at	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Secured bank loans (note)	202,862	203,756
Unsecured bank loans	378,381	297,741
	581,243	501,497
The carrying amounts of the above borrowings are repayable based on scheduled repayment terms:		
Within one year	418,302	311,987
More than one year but not exceeding two years	104,610	2,800
More than two years but not exceeding five years	58,331	186,710
	581,243	501,497
Less: Amounts shown under non-current liabilities	162,941	189,510
Amounts shown under current liabilities	418,302	311,987

Note: The Group's bank borrowings were guaranteed by the related parties and Shareholders and secured by assets of the Group as detailed in notes 10 and 18 and restricted bank deposits.

Analysis as followings:

	As at	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Fixed-rate borrowings	548,967	454,938
Variable-rate borrowings	32,276	46,559
	581,243	501,497

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

15. BORROWINGS (Continued)

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

	As at	
	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Effective interest rate:		
Variable-rate borrowings	4.7%-5.7%	4.7%-7.8%
Fixed-rate borrowings	0 %-10.5%	3.0%-8.6%

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

	As at	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
RMB	70,710	70,710
US$	18,845	11,273

16. SHARE CAPITAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 April 2018.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

16. SHARE CAPITAL (Continued)

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

On 21 January 2020, the Company issued 250,000,000 new Shares at HK$0.51 each by initial public offering and then the Company's shares have been listed on the Stock Exchange.

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

	Number of Shares	Amount US$
Ordinary shares of US$0.001 each		
Authorised		
At 1 January 2019	50,000,000	50,000
Cancelled during the period	(50,000,000)	(50,000)
At 3 January and 30 June 2019 (Audited)	—	—
Issued and fully paid		
At 1 January 2019	10,000,000	10,000
Cancelled during the period	(10,000,000)	(10,000)
At 3 January and 30 June 2019 (Audited)	—	—

	Number of Shares	Amount HK$
Ordinary shares of HK$0.01 each		
Authorised		
At 3 January and 30 June 2019 (Audited), and 1 January and 30 June 2020 (Unaudited)	10,000,000,000	100,000,000
Issued and fully paid		
At 3 January and 30 June 2019, and 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 (Unaudited)	1,000,000,000	10,000,000

	RMB'000
Presented as at 1 January 2019	69
Presented as at 30 June 2019 and 1 January 2020	9
Presented as at 30 June 2020	8,844

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17. CAPITAL COMMITMENTS

	As at	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	52,979	4,163

18. RELATED PARTY TRANSACTIONS

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

Provision of guarantees and security by related parties of the Group

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

	As at 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Assets security		
Organic Chemicals Co. (defined as below) (note)	10,000	10,000
Provision of guarantee		
Mr. Yin	10,000	10,000
Ms. Wu	10,000	10,000
	20,000	20,000

Note:

Nanjing Organic Chemicals Co., Ltd. ("Organic Chemicals Co.") is under common control of certain Shareholders and Directors.

Compensation of key management personnel

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

	As at 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Short-term benefits	2,543	2,209
Post-employment benefits	311	192
	2,854	2,401

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19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

(i) Fair value measurement of the Group's financial assets and financial liabilities 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	30 June 2020 (Unaudited)	31 December 2019 (Audited)	Fair value hierarchy	Valuation techniques and key inputs
Financial assets at FVTPL	RMB480,000	N/A	Level 1	Quoted bid prices in active market
Bill receivables at FVTOCI	RMB72,128,000	RMB54,802,000	Level 2	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the bill receivables

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

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

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