



雲能國際
YUNNAN ENERGY INTERNATIONAL

Yunnan Energy International Co. Limited

雲能國際股份有限公司*

(Incorporated in Bermuda with limited liability)

(Hong Kong Stock Code: 1298)

(Singapore Stock Code: T43)

Interim Report **2020**

* for identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

YAN Jiong (Chairman)
ZHANG Jing (Chief Executive Officer)
JIANG Wei
ZHAO Na
HE Junyu

Independent Non-executive Directors

SHI Fazhen
LIU Zongliu
JING Pilin

AUDIT COMMITTEE

SHI Fazhen (Chairman)
LIU Zongliu
JING Pilin

NOMINATION COMMITTEE

YAN Jiong (Chairman)
ZHANG Jing
SHI Fazhen
LIU Zongliu
JING Pilin

REMUNERATION COMMITTEE

SHI Fazhen (Chairman)
YAN Jiong
ZHANG Jing
LIU Zongliu
JING Pilin

COMPANY SECRETARY

NG King Hang

BERMUDA RESIDENT REPRESENTATIVE AND ASSISTANT SECRETARY

Ocorian Services (Bermuda) Limited
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

REGISTERED OFFICE

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10 Bermuda
Bermuda Company Registration
Number 34778

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2008, 20/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

SINGAPORE SHARE TRANSFER AGENT

M & C Services Private Limited
112 Robinson Road
#05-01
Singapore 068902

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

COMPANY WEBSITE

www.yeigi.com

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

PRC Distribution Business

For the six months ended 30 June 2020 (“HY2020”), revenue from the PRC distribution business decreased significantly as compared to the corresponding period in the previous year as the business was affected by the novel coronavirus disease (“COVID-19”) and the suspension of production as required by anti-epidemic measures. Sales personnel had to cancel or significantly reduced their sales activities to comply with epidemic prevention and control requirements, while clients also suspended the purchase of relevant equipment in view of the epidemic prevention work. Despite the decline in revenue, the Group focused on cost control, imposed stringent regulations to eliminate unnecessary administrative and selling expenses and reduced finance costs through various measures which include obtaining support from its major shareholders, resulting in a significant reduction in operating loss as compared to the corresponding period in previous year. The Group will continue to support the local governments’ efforts in epidemic prevention and control in the areas where it operates and develop its trading and distribution business in a steady and orderly manner.

(II) FINANCIAL REVIEW

Unaudited Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

Revenue

Revenue in HY2020 decreased by 76.3% to HK\$38.4 million from HK\$161.6 million for the six months ended 30 June 2019 (“HY2019”), mainly attributable to the drop in orders as a result of the outbreak of the COVID-19.

Cost of sales

Cost of sales in HY2020 decreased by 71.8% to HK\$33.4 million from HK\$118.5 million in HY2019. The decrease was attributable to the decline of revenue as well as the decrease in materials costs.

Gross profit and gross profit margin

The gross profit in HY2020 decreased by 88.4% to HK\$5.0 million from HK\$43.2 million in HY2019. The gross profit margin in HY2020 was 13.1% compared to 26.7% in HY2019. The gross profit margin decreased due to more revenue being below the average gross profit margin in HY2020.

Other income

Other income in HY2020 decreased by 34.6% to HK\$0.4 million from HK\$0.6 million in HY2019. The decrease was mainly due to a decrease of bank interest income.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) FINANCIAL REVIEW (CONTINUED)

Selling and distribution expenses

Selling and distribution expenses in HY2020 decreased by 91.8% to HK\$2.2 million from HK\$27.0 million in HY2019, mainly due to the cost saving in staff costs and the exhibition and promotion expenses.

Administrative expenses

Administrative expenses in HY2020 decreased by 66.1% to HK\$9.3 million from HK\$27.5 million in HY2019, mainly due to cost saving in staff costs, business trip expenses, entertainment, rental expenses and the professional fees.

Finance costs

Finance costs in HY2020 decreased by 78.6% to HK\$0.9 million from HK\$4.4 million in HY2019, mainly due to the decrease of interest expenses of loan from a shareholder.

Loss for the period

In view of the above, the Group's loss for HY2020 decreased by 53.1% to HK\$7.1 million from HK\$15.0 million in HY2019.

Unaudited Condensed Consolidated Statement of Financial Position

Inventories

Inventories decreased by HK\$17.6 million from HK\$55.8 million as at 31 December 2019 to HK\$38.2 million as at 30 June 2020, mainly due to the lower overall level of inventories held to meet the lower demand.

Trade and bills receivables

Trade and bills receivables decreased by HK\$5.2 million from HK\$140.2 million as at 31 December 2019 to HK\$135.0 million as at 30 June 2020 due to the decrease in trade and bills receivables which are less than 90 days.

Trade and bills payables

Trade and bills payables decreased by HK\$5.2 million from HK\$13.9 million as at 31 December 2019 to HK\$8.7 million as at 30 June 2020 due to the decrease in trade and bills payables which are less than 60 days.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) FINANCIAL REVIEW (CONTINUED)

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the Group's net current assets amounted to HK\$285.7 million (31 December 2019: HK\$455.5 million), of which the bank balances and cash were HK\$16.5 million (31 December 2019: HK\$204.9 million). The Group's current ratio was 9.9 (31 December 2019: 11.1).

Total bank borrowings, overdrafts and loan from a shareholder as at 30 June 2020 was HK\$31.4 million (31 December 2019: HK\$192.0 million). All the Group's bank borrowings, overdrafts and loan from a shareholder were denominated in Japanese Yen, United States dollars and Hong Kong dollars. The Group's gearing ratio stood at 11.7% as at 30 June 2020 (31 December 2019: 68.4%), which is calculated based on the Group's total interest-bearing debts over the total equity. The Group adopts centralised financing and treasury policies in order to ensure that group financing is managed efficiently. The Group also regularly monitors its liquidity requirements, its compliance with lending covenants and its relationship with bankers to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short term and long term.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for those disclosed in this interim report, there were no significant investments held by the Group as at 30 June 2020, nor were there other material acquisitions and disposals of subsidiaries by the Group during HY2020. Apart from those disclosed in this interim report, there was no other plan authorised by the Board for other material investments or additions of capital assets at the date of this interim report.

PLEDGE ON ASSETS

The Group did not have any charges on its assets as at 30 June 2020.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

The Group did not have any material contingent liabilities or capital commitment as at 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURE TO FLUCTUATIONS ON EXCHANGE RATES

The Group's transactions are mainly denominated in United States dollars, Japanese Yen, Hong Kong dollars and Renminbi. Therefore, the Group is exposed to foreign currency exchange risk. The Group has not implemented any foreign currency hedging policy at the moment. However, continuous monitoring on the foreign exchange exposure is carried out by the management and the management will consider hedging against significant foreign exchange exposure should the need arise.

INTERIM DIVIDEND

The Board did not declare an interim dividend for HY2020 (HY2019: Nil).

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS UNDER RULE 13.51B(1) OF THE RULES ("LISTING RULES") GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED ("SEHK")

There is no other change in the Directors' biographical details which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2019 annual report of the Company up to the date of this interim report.

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2020, there were 23 (31 December 2019: 70) employees in the Group. Staff remuneration packages are determined after considering the market conditions and the performance of the individuals concerned, and are subject to review from time to time. In HY2020, the total salary and related cost paid to our employees were approximately HK\$3.6 million. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

(III) PROSPECTS

The impact of the COVID-19 and the complexity of the global landscape have brought uncertainties and challenges to the Group's overall production and operations in HY2020. With the epidemic gradually brought under control, it is considered to be favorable for future business development but the possibility of a prolonged downturn cannot be ruled out. Meanwhile, the Group will continue the remarkable development of its trading and supply chain business and expansion of its supply chain business into areas that are stable in their performance and less affected by the macroeconomic changes and continue to generate stable operating revenue for the shareholders. On the other hand, the Group will continue to promote its project investment and financial investment, strengthen and solidify its value creation capability with the strong and solid industrial background of its major shareholders, extend its foothold to the supply chain, energy and finance sectors, and prevent external shocks from negatively affecting its business.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30 June 2020, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were required (a) to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listing Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of HY2020 nor at any time during HY2020 was the Company nor any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, except for the Share Option Schemes and the Share Award Scheme.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

Details of the Share Option Schemes and the Share Award Scheme are set out in notes 17 and 18 to the unaudited condensed consolidated financial statements respectively.

No share option had been granted, exercised, expired, cancelled or lapsed and there is no outstanding share option under the 2004 Share Option Scheme and the 2011 Share Option Scheme during HY2020.

During HY2020, no share awards had been granted under the Share Award Scheme.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

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

As at 30 June 2020, so far as known to the Directors of the Company, the following persons (other than the Directors whose interests are disclosed in the section headed "Directors' Interests in Shares and Underlying Shares and Debentures" above) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in Shares

Name	Capacity and nature of interests	Direct Interest		Deemed Interest	
		Number of Shares held	Approximate percentage of the issued share capital of the Company	Number of Shares held	Approximate percentage of the issued share capital of the Company
Baodi International Investment Company Limited (Note 1)	Beneficial owner	201,196,995	73.05%	–	–
Yunnan Energy Investment (HK) Co. Limited (Note 1)	Interest of controlled corporation	–	–	201,196,995	73.05%
Yunnan Provincial Energy Investment Group Co., Limited (Note 1)	Interest of controlled corporation	–	–	201,196,995	73.05%

Notes:

- 201,196,995 shares are owned by Baodi International Investment Company Limited which is wholly owned by Yunnan Energy Investment (HK) Co. Limited, which in turn is wholly owned by Yunnan Provincial Energy Investment Group Co., Limited. Accordingly, Yunnan Energy Investment (HK) Co. Limited and Yunnan Provincial Energy Investment Group Co., Limited are deemed to be interested in all the Shares held by Baodi International Investment Company Limited.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Save as disclosed above, as at 30 June 2020, the Directors were not aware of any other persons (other than the Directors) who had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During HY2020, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities on the SEHK or the Singapore Exchange Securities Trading Limited ("SGX-ST").

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed the unaudited interim results of the Group for HY2020, including the review of the accounting principles and practices adopted by the Group, and has also discussed auditing, risk management and internal control and financial reporting matters. The Audit Committee has no disagreement with the accounting principles, treatments and practices adopted by the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company recognises the importance of good corporate governance and accountability to shareholders. The Board believes that the Company and all its stakeholders can benefit from such practice and management culture. Therefore, the Company continuously reviews its corporate governance practice to comply, where applicable, with the principles and guidelines of the Corporate Governance Code (the "Hong Kong Code") contained in Appendix 14 to the Listing Rules.

In the opinion of the Board, the Company has complied with the applicable code provisions of the Hong Kong Code throughout HY2020.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors.

Having made specific enquiry with all Directors, the Company confirmed that all members of the Board complied with the Model Code during HY2020.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of noncompliance with the Model Code by such employees was noted by the Company during HY2020.

DISCLOSURE ON THE WEBSITES OF THE EXCHANGES AND THE COMPANY

This report shall be published on the respective websites of the SEHK, SGX-ST and the Company

By Order of the Board
Yunnan Energy International Co. Limited
YAN Jiong
Chairman

Hong Kong, 26 August 2020

FINANCIAL STATEMENTS

RESULTS

The board (the “Board”) of directors (the “Director(s)”) of Yunnan Energy International Co. Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2020 (“HY2020”) together with the comparative figures for the six months ended 30 June 2019 (“HY2019”) as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
	Notes	2020	2019
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	3	38,372	161,648
Cost of sales		(33,357)	(118,469)
Gross profit		5,015	43,179
Other income		388	593
Selling and distribution expenses		(2,217)	(26,951)
Administrative expenses		(9,324)	(27,481)
Finance costs	4	(935)	(4,367)
LOST BEFORE TAX	5	(7,073)	(15,027)
Income tax	6	–	(53)
LOSS FOR THE PERIOD		(7,073)	(15,080)

FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

	Note	Six months ended 30 June	
		2020 (Unaudited)	2019 (Unaudited)
		HK\$'000	HK\$'000
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods</i>			
<i>– Exchange differences:</i>			
On translation of foreign operations		(4,674)	129
OTHER COMPREHENSIVE INCOME/(LOSS)			
FOR THE PERIOD, NET OF INCOME TAX		(4,674)	129
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(11,747)	(14,951)
Loss for the period attributable to:			
Shareholders of the Company		(7,073)	(15,080)
Total comprehensive loss for the period attributable to:			
Shareholders of the Company		(11,747)	(14,951)
LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY:			
Basic and diluted	8		
For loss for the period		(HK2.57 cents)	(HK5.47 cents)

FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2020 (Unaudited) <i>HK\$'000</i>	31 December 2019 (Audited) <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,818	1,755
Right-of-use assets	10	1,602	2,973
Other intangible assets		1,936	2,316
Equity investment at fair value through other comprehensive income		3,204	3,204
Total non-current assets		9,560	10,248
CURRENT ASSETS			
Inventories		38,236	55,823
Trade and bills receivables	11	135,024	140,153
Prepayments, deposits and other receivables	12	128,183	99,851
Cash and bank balances		16,467	204,877
Total current assets		317,910	500,704
CURRENT LIABILITIES			
Trade and bills payables	13	8,685	13,891
Other payables and accruals	14	16,818	21,262
Income tax payables		–	4
Bank borrowings		6,125	8,698
Lease liabilities	10	544	1,393
Total current liabilities		32,172	45,248

FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	30 June 2020 (Unaudited) <i>HK\$'000</i>	31 December 2019 (Audited) <i>HK\$'000</i>
NET CURRENT ASSETS		285,738	455,456
TOTAL ASSETS LESS CURRENT LIABILITIES		295,298	465,704
NON-CURRENT LIABILITIES			
Lease liabilities	10	1,081	1,662
Loan from a shareholder	15	25,271	183,349
Total non-current liabilities		26,352	185,011
Net assets		268,946	280,693
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	16	107,420	107,420
Reserves		161,526	173,273
Total equity		268,946	280,693

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						Total equity (Unaudited) HK\$'000
	Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital and other reserves (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	
At 1 January 2020	107,420	143,392	3,071	112	2,423	24,275	280,693
Loss for the period	-	-	-	-	-	(7,073)	(7,073)
Other comprehensive loss for the period:							
Exchange differences:							
On translation of foreign operations	-	-	-	-	(4,674)	-	(4,674)
Total comprehensive loss for the period	-	-	-	-	(4,674)	(7,073)	(11,747)
At 30 June 2020	107,420	143,392	3,071	112	(2,251)	17,202	268,946

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to owners of the Company						Total equity (Unaudited) HK\$'000
	Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital and other reserves (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	
At 1 January 2019	107,420	143,392	3,071	112	100	44,067	298,162
Loss for the period	-	-	-	-	-	(15,080)	(15,080)
Other comprehensive income for the period:							
Exchange differences:							
On translation of foreign operations	-	-	-	-	129	-	129
Total comprehensive income/(loss) for the period	-	-	-	-	129	(15,080)	(14,951)
At 30 June 2019	107,420	143,392	3,071	112	229	28,987	283,211

FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash flows used in operating activities	(23,487)	(52,525)
Cash flows from Investing activities		
Interest received	60	593
Purchases of items of property, plant and equipment	(1,580)	(362)
Net cash flows from/(used in) investing activities	(1,520)	231
Cash flows from financing activities		
New bank loans	8,037	109,827
Repayments of bank loans	(10,610)	(115,223)
Principal portion of lease payments	(755)	-
New loan from a shareholder	-	179,400
Repayment of loan from a shareholder	(158,730)	-
Interest paid	(190)	(570)
Net cash from/(used in) financing activities	(162,248)	173,434
Net increase/(decrease) in cash and cash equivalents	(187,255)	121,140
Cash and cash equivalents at beginning of the period	204,877	187,547
Effect of foreign exchange rate changes, net	(1,155)	172
Cash and cash equivalents at end of the period	16,467	308,859

FINANCIAL STATEMENTS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Yunnan Energy International Co. Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability. The Company’s shares have a primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (“SEHK”) and a secondary listing on the Main Board of Singapore Exchange Securities Trading Limited (“SGX-ST”).

During the period, the Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) is involved in the distribution of branded analytical and laboratory instruments and life science equipment to the People’s Republic of China (the “PRC”) and the provision of related repair and maintenance services (the “PRC Distribution Business”).

The immediate holding company of the Company is Baodi International Investment Company Ltd. (“Baodi”), which is incorporated in the British Virgin Islands with limited liability, and in the opinion of the directors, the ultimate holding company of the Company is Yunnan Provincial Energy Investment Group Co., Ltd, which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the Yunnan Provincial People’s Government of the PRC.

FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the unaudited 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.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s unaudited condensed consolidated financial statements:

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9 IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IFRS 16	<i>Covid-19 – Related Rent Concessions</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

2.1 IFRS 3 *Definition of a Business*

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has adopted the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

FINANCIAL STATEMENTS

3. REVENUE AND OPERATING SEGMENT INFORMATION

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<i>Revenue from contracts with customers</i>		
Sale of goods	36,384	140,584
Repair and maintenance service income	1,988	21,064
	38,372	161,648

Notes:

- a. More than 97% of the Group's revenue for each of the six months ended 30 June 2020 and 2019, which is the revenue from contracts with customers, was derived from sales and services provided to customers in the PRC.

Sales of goods and repair and maintenance service income for the six months ended 30 June 2020 and 2019 were recognised at the point in time and over time, respectively.

- b. The revenue recognised during the six months ended 30 June 2020 that was included in the contract liabilities at the beginning of reporting period amounted to approximately HK\$14,013,000. No revenue recognised during the six months ended 30 June 2020 and 2019 related to performance obligations satisfied or partially satisfied in previous years.

- c. Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation for the sale of goods is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Provision of repair and maintenance services

The performance obligation is satisfied over time, using the input method on the basis of labour time spent on the services, and payment is generally due upon completion of the services.

The Group did not have any transaction price allocated to performance obligations that were unsatisfied or partially unsatisfied as at 30 June 2020 and 2019.

FINANCIAL STATEMENTS

3. REVENUE AND OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information

No operating segment information is presented as more than 90% of the Group's revenue and reported results during each of the six months ended 30 June 2020 and 2019, and more than 90% of the Group's total assets as at the end of each of these periods were derived from one single operating segment, i.e., the PRC Distribution Business.

Geographical information

No geographical information is presented as more than 90% of the revenue during each of the six months ended 30 June 2020 and 2019 was derived from the PRC (including Hong Kong and Macau – country of domicile) and more than 90% of the Group's non-current assets as at the end of each of these periods were located in the PRC (including Hong Kong and Macau).

Information about major customers

During the six months ended 30 June 2020, there were two external customers who contributed more than 10% of the Group's revenue (equivalent to approximately HK\$16,305,000) for the period.

During the six months ended 30 June 2019, there was a single external customer who contributed more than 10% of the Group's revenue (equivalent to approximately HK\$22,146,000) for the period.

4. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and bank overdrafts	190	678
Interest on loans from a shareholder	652	3,689
Interest on lease liabilities	93	–
	935	4,367

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5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	33,357	118,469
Depreciation of property, plant and equipment	232	357
Depreciation of right-of-use assets	717	–
Amortisation of other intangible assets*	388	386
Lease payments not included in the measurement of lease liabilities	–	3,569
Employee benefit expense (excluding directors' remuneration):		
Salaries, allowances and benefits in kind	3,083	26,772
Defined contribution scheme contributions	563	5,644
	3,646	32,416
Foreign exchange loss, net	1,453	1,407
Loss on disposal of items of property, plant and equipment, net	–	15
Reversals of impairment of trade receivables, net	–	357

* The amortisation of other intangible assets for the period is included in "Administrative expenses" on the face of the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

6. INCOME TAX

An analysis of the Group's income tax is as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – PRC	–	53

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6. INCOME TAX (CONTINUED)

Notes:

- (a) The income tax expense of the Group is calculated at the respective statutory tax rates prevailing in the relevant jurisdictions.

Income taxes in Hong Kong and Singapore are calculated at 16.5% and 17% (six months ended 30 June 2019: 16.5% and 17%) of the estimated assessable profits for the period, respectively. No provision for Hong Kong Profits Tax and Singapore Corporate Income Tax was made as the Group does not have any assessment profits arising from Hong Kong and Singapore for both periods.

Under the Law of the PRC on Corporate Income Tax (the “PRC Corporate Income Tax Law”) and the Implementation Regulation of the PRC Corporate Income Tax Law, the tax rate of the PRC subsidiaries is 25% (six months ended 30 June 2019: 25%). No provision for income tax in the PRC was made by the PRC subsidiaries.

The Macau subsidiary is currently enjoying tax exemption provided by Decree-Law No. 58/99/M. Under that law, the Macau subsidiary is duly authorised to operate as an offshore institution and is exempted from Macau income tax when the income is generated through the engagement in offshore business that targets only overseas residents as customers and uses only a non-Macau currency in its activities. Accordingly, no provision for income tax in Macau was made by the Macau subsidiary.

7. DIVIDENDS

The Board does not recommend or declare any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic loss per share amounts is based on the loss for the period attributable to shareholders of the Company and the weighted average number of ordinary shares in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for each of the period ended 30 June 2020 and 2019 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2020 and 2019.

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8. LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (CONTINUED)

The calculations of basic and diluted loss per share amounts are based on the following data:

Loss

	Six months ended 30 June 2020 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>
Loss for the period attributable to shareholders of the Company, used in the basic and diluted loss per share calculations	(7,073)	(15,080)

Number of ordinary shares

	Number of shares Six months ended 30 June 2020 <i>'000</i>	2019 <i>'000</i>
Weighted average number of ordinary shares in issue during the period, used in the basic and diluted loss per share calculations	275,437	275,437

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$1,580,000 (six months ended 30 June 2019: HK\$362,000) on acquisition of property, plant and equipment. During the period, the Group disposed items of property, plant and equipment with carrying amount of approximately HK\$116,000 (six months ended 30 June 2019: HK\$15,000).

10. LEASES WHERE THE GROUP AS A LESSEE

The Group has lease arrangements as a lessee for office premises used in its operations. The leases have lease terms between 2 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

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10. LEASES WHERE THE GROUP AS A LESSEE (CONTINUED)

(a) Right-of-use assets

The carrying amount of the Group's right-of-use assets and the movements during the period are as follows:

	Office premises	
	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	HK\$'000	HK\$'000
At 1 January	2,973	4,108
Additions	1,272	288
Disposal as a result of lease modification	(1,887)	–
Depreciation provided during the year (note 5)	(717)	(1,398)
Exchange realignment	(39)	(25)
At end of the period	1,602	2,973

(b) Lease liabilities

The carrying amount of the Group's lease liabilities and the movements during the period are as follows:

	Office premises	
	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	HK\$'000	HK\$'000
At 1 January	3,055	4,108
New leases	1,272	288
Disposal as a result of lease modification	(1,976)	–
Accretion of interest recognized during the period (note 4)	93	219
Payments	(755)	(1,533)
Exchange realignment	(64)	(27)
At end of the period	1,625	3,055
Portion classified as current liabilities	(544)	(1,393)
Non-current portion	1,081	1,662

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11. TRADE AND BILLS RECEIVABLES

	Notes	30 June 2020 (Unaudited) <i>HK\$'000</i>	31 December 2019 (Audited) <i>HK\$'000</i>
Trade receivables	(a)	149,459	171,712
Impairment		(14,435)	(31,559)
		135,024	140,153

Notes:

- (a) The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.
- (b) An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2020 (Unaudited) <i>HK\$'000</i>	31 December 2019 (Audited) <i>HK\$'000</i>
Less than 90 days	19,118	45,744
91 to 120 days	342	1,420
121 to 365 days	23,940	16,354
1 to 2 years	73,919	59,308
Over 2 years	17,705	17,327
	135,024	140,153

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12. PREPAYMENTS, DEPOSIT AND OTHER RECEIVABLES

	Notes	30 June 2020 (Unaudited) <i>HK\$'000</i>	31 December 2019 (Audited) <i>HK\$'000</i>
Prepayments	(a)	681	2,098
Deposits and other receivables	(b)	9,488	13,249
Advance payments for purchase of inventories	(c)	118,014	84,504
		<u>128,183</u>	<u>99,851</u>

Notes:

- (a) Prepayments mainly comprise prepaid rental and other expenses.
- (b) Deposits and other receivables mainly comprise tendering deposits, performance pledge deposits, rental deposits and value-added tax recoverable. These amounts were not considered impaired as there was no recent history of default and the Group did not experience any material incurred credit losses in the past with respect to the counterparties.
- (c) The amount represents an advance for purchases of analytical and laboratory instruments and life science equipment.

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13. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 60 days	768	12,405
61 to 180 days	7,603	173
181 to 365 days	115	1,039
Over 1 year	199	274
	8,685	13,891

Note:

- (a) The trade payables are non-interest-bearing and are normally settled on terms ranging from 60 days to 90 days.

14. OTHER PAYABLES AND ACCRUALS

	Notes	30 June 2020 (Unaudited)	31 December 2019 (Audited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals		2,748	3,098
Contract liabilities – customers' deposits	(a)	14,013	17,452
Other payables	(b)	57	712
		16,818	21,262

Notes:

- (a) Contract liabilities include short-term advances received to deliver analytical and laboratory instruments and life science equipment and render repair and maintenance services.
- (b) Other payables are non-interest-bearing and have an average term of three months.

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15. LOAN FROM A SHAREHOLDER

The loan balance as at 30 June 2020 was a loan advanced to the Group from Baodi pursuant to a loan agreement dated 25 June 2019 entered into between the two parties with a total loan facility of HK\$936,000,000. This shareholder's loan is unsecured, bears interest at the rate of 7% per annum and has a maturity date of 26 June 2022, which could be extended from time to time as mutually agreed between the two parties on or before the maturity date. During the six months ended 30 June 2020, a total of approximately HK\$158,730,000 was repaid by the Group and as at 30 June 2020, the outstanding balance under this loan facility amounted to approximately HK\$25,271,000.

Baodi has undertaken not to demand repayment of the amount due to it by the Company until the Company is in a position to repay without impairing its liquidity and financial position.

The loan arrangements with the shareholder constitute the exempted connected transactions under Chapter 14A of the Listing Rules.

16. SHARE CAPITAL

Shares

	30 June 2020	31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
800,000,000 ordinary share of US\$0.05 (equivalent to approximately HK\$0.39) each	312,000	312,000
Issued and fully:		
275,437,000 ordinary share of US\$0.05 (equivalent to approximately HK\$0.39) each	107,420	107,420

Shares options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 17 to the unaudited condensed consolidated financial statements.

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17. SHARE OPTION SCHEMES

The Company has two share option schemes, details of which are as follows:

2004 Share Option Scheme

On 28 May 2004, the Company adopted a share option scheme (the “2004 Share Option Scheme”) for a maximum period of 10 years from the adoption date. The purpose of the 2004 Share Option Scheme was to provide the eligible participants with an opportunity to have a personal stake in the Company with a view to motivating them to optimise their performance efficiency for the benefit of the Company.

The size of the 2004 Share Option Scheme shall not exceed 15% of the issued ordinary share capital of the Company. The options that are granted under the 2004 Share Option Scheme may have exercise prices that are set at a price equal to the average of the last dealt prices for the shares of the Company, determined by reference to the daily official list or other publication published by the Official List of SGX-ST for a period of five consecutive market days immediately preceding the relevant date of grant of such options or at a discount to the above-mentioned price (subject to a maximum discount of 20%).

Directors (including non-executive directors and independent non-executive directors) and employees of the Group are eligible to participate in the 2004 Share Option Scheme. Controlling shareholders and their associates are not eligible to participate in the 2004 Share Option Scheme. Holders of options who are executive directors or employees of any company in the Group will have up to 10 years from the date of grant to exercise their options. Holders of options who are non-executive directors of any company within the Group will have up to 5 years from the relevant date of grant to exercise their options. Offers of options made to grantees, if not accepted within 30 days, will lapse.

The number of shares of the Company comprised in any option to be offered to a participant of the 2004 Share Option Scheme shall be determined at the absolute discretion of the remuneration committee of the Company. The maximum entitlement of any offeree, in accordance with and during the operation of the 2004 Share Option Scheme, shall not exceed 20% in aggregate of the total number of shares of the Company which have been issued and may be issued by the Company under the 2004 Share Option Scheme. Upon acceptance of the option, the grantee shall pay Singapore dollar (“SG\$”) 1.00 to the Company by way of consideration for the grant of the option.

The 2004 Share Option Scheme was subsequently superseded by another share option scheme which was adopted on 9 June 2011 (the “2011 Share Option Scheme”).

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17. SHARE OPTION SCHEMES (CONTINUED)

2004 Share Option Scheme (continued)

During the year ended 31 December 2019 and the period from 1 January 2020 to 30 June 2020, no share option had been granted, exercised, expired, cancelled or lapsed and there is no outstanding share option under the 2004 Share Option Scheme.

2011 Share Option Scheme

On 9 June 2011, the Company adopted the 2011 Share Option Scheme. The purpose of the 2011 Share Option Scheme was to enable the Company to grant options to eligible participants as incentives or rewards for their contribution to the Group, and to encourage eligible participants to perform their best in achieving goals of the Group.

Directors (including non-executive directors and independent non-executive directors) and employees of the Group are eligible to participate in the 2011 Share Option Scheme.

The 2011 Share Option Scheme shall be in force up to a maximum period of 10 years from the date on which the 2011 Share Option Scheme was adopted and may continue beyond the stipulated period with the approval of shareholders by way of an ordinary resolution in a general meeting and of such relevant authorities which may then be required.

The options that are granted under the 2011 Share Option Scheme may have exercise prices that are the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by SEHK or SGX-ST (whichever is higher) on the offer date of such options, which must be a business day; and (ii) the average of the closing prices of the shares of the Company as stated in the daily quotations sheets issued by SEHK or SGX-ST for the five consecutive business days immediately preceding the offer date of such options (whichever is higher).

Where the options are granted to the controlling shareholders and their associates, (i) the aggregate number of shares of the Company available to the controlling shareholders and their associates shall not exceed 25% of the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2011 Share Option Scheme; (ii) the aggregate number of shares of the Company available to each controlling shareholder or his associate shall not exceed 10% of the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2011 Share Option Scheme; (iii) separate approval of independent shareholders shall be obtained for each participant in respect of this participation and the number of shares of the Company comprised in the options to be granted to him and the terms.

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17. SHARE OPTION SCHEMES (CONTINUED)

2011 Share Option Scheme (continued)

The number of shares of the Company comprised in any option to be offered to a participant in the 2011 Share Option Scheme shall be determined at the absolute discretion of the remuneration committee of the Company. The total number of shares of the Company issued and to be issued upon exercise of the options granted to such participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue under the 2011 Share Option Scheme. Upon acceptance of the option, the grantee shall pay S\$1.00 to the Company by way of consideration for the grant of the option.

Pursuant to the extraordinary general meeting of the Company on 9 June 2011 and the approval granted by the Listing Committee of SEHK, the Company may grant options entitling the eligible participants to subscribe for up to a maximum number of 23,250,000 shares of the Company, representing 10% of the issued share capital of the Company as at the adoption date.

During the year ended 31 December 2019 and the period from 1 January 2020 to 30 June 2020, no share option had been granted, exercised, expired, cancelled or lapsed and there is no outstanding share option under the 2011 Share Option Scheme.

18. SHARE AWARD SCHEMES

On 11 January 2017, the Company adopted a share award scheme. Pursuant to the share award scheme, existing shares of the Company will be purchased by a trustee of the Company from the market out of cash contributed by the Group and be held in trust for the selected participants until such shares are vested with the selected participants in accordance with the provisions of the scheme. When the selected participant has satisfied all vesting conditions specified by the board of directors of the Company at the time of making the award and become entitled to the shares forming the subject of the award, the trustee shall transfer the relevant vested shares to that qualifying person.

The purposes of the share award scheme are to recognise the contributions by the Group's employees, executives, officers or directors and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

During the year ended 31 December 2019 and the period from 1 January 2020 to 30 June 2020, no shares of the Company were acquired by the trustee and no share awards were granted.

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19. CONTINGENT LIABILITIES

As at 30 June 2020 and 31 December 2019, the Group had no material contingent liabilities.

20. CAPITAL COMMITMENTS

As at 30 June 2020 and 31 December 2019, the Group did not have any significant capital commitment.

21. RELATED PARTIES DISCLOSURES

- (a) In addition to the transactions detailed elsewhere in the unaudited condensed consolidated financial statements, the Group had the following material transactions with related parties during the period:

		Six months ended 30 June	
	Notes	2020 (Unaudited)	2019 (Unaudited)
		HK\$'000	HK\$'000
Interest paid and payable on loans from the immediate holding company	(i)	652	3,689
Consultancy fees paid to key management personnel	(ii)	–	1,680
Purchases of goods from companies in which two members of key management personnel has beneficial interests	(iii)	–	20,672

Notes:

- (i) Details of the loans from the immediate holding company are set out in note 15 to the unaudited condensed consolidated financial statements. The loans from the immediate holding company are exempted connected transactions as defined under Chapter 14A of the Listing Rules.
- (ii) The consultancy fees were paid and payable for services provided by Messrs. Lo Yat Keung and Chan Wai Shing, who resigned as directors of the Company in 2018, in connection with the operations of the Group. The consultancy fees for the six months ended 30 June 2019 were charged pursuant to the terms of the service agreements signed between the Group and the two related parties. These related party transactions constitute continuing connected transactions as defined under Chapter 14A of the Listing Rules.
- (iii) The purchases were made from companies in which Messrs. Lo Yat Keung and Chan Wai Shing have beneficial interests, based on mutually agreed terms.

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21. RELATED PARTIES DISCLOSURES (CONTINUED)

- (b) Outstanding balances with related parties:

The Group had a loan balance due to its immediate holding company of approximately HK\$25,271,000 (31 December 2019: approximately HK\$183,349,000) as at the end of the reporting period, as further detailed in note 15 to the unaudited condensed consolidated financial statements.

- (c) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term employee benefits	554	1,999
Post-employment benefits	9	6
Total compensation paid to key management personnel	563	2,005