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Tsaker Chemical Group Limited

彩客化學集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1986)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

Revenue of the Group for the six months ended 30 June 2020 amounted to approximately RMB735.5 million, representing a decrease of approximately RMB339.8 million or 31.6% comparing with that in the same period of 2019.

Gross profit of the Group for the six months ended 30 June 2020 amounted to approximately RMB307.0 million, representing a decrease of approximately RMB363.5 million or 54.2% comparing with that in the same period of 2019.

Net profit of the Group for the six months ended 30 June 2020 amounted to approximately RMB138.7 million, representing a decrease of approximately RMB268.0 million or 65.9% comparing with that in the same period of 2019.

Basic and diluted earnings per share of the Group for the six months ended 30 June 2020 amounted to approximately RMB0.13, representing a decrease of approximately RMB0.26 or 66.7% comparing with that in the same period of 2019.

The Board resolved to declare and pay an interim dividend of RMB0.048 per share for the six months ended 30 June 2020 (the six months ended 30 June 2019: nil).

RESULTS

The board (the “**Board**”) of directors (the “**Director(s)**”) of Tsaker Chemical Group Limited (the “**Company**” or “**we**” or “**our**”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 (the “**Review Period**”), together with the comparative figures for the same period in 2019. These results were prepared based on the Group’s unaudited consolidated financial statements, which were prepared in accordance with the Hong Kong Accounting Standard 34, “Interim financial reporting”, and the disclosure requirements of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

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

For the six months ended 30 June

	<i>Notes</i>	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
REVENUE	3	735,521	1,075,274
Cost of sales		<u>(428,544)</u>	<u>(404,811)</u>
Gross profit		306,977	670,463
Other income and gains		3,627	2,740
Selling and distribution expenses		(20,166)	(21,726)
Administrative expenses		(84,818)	(75,094)
Other expenses		(2,951)	(3,793)
Finance costs	5	(13,603)	(18,377)
Exchange losses, net		<u>(10,411)</u>	<u>(1,480)</u>
PROFIT BEFORE TAX	6	178,655	552,733
Income tax expense	7	<u>(39,928)</u>	<u>(146,074)</u>
PROFIT FOR THE PERIOD		<u>138,727</u>	<u>406,659</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		<u>6,326</u>	<u>2,678</u>
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods (net of tax):			
Equity investments designated at fair value through other comprehensive income (“FVOCI”)		<u>(4,803)</u>	<u>1,132</u>
Other comprehensive income, net of tax		<u>1,523</u>	<u>3,810</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>140,250</u>	<u>410,469</u>
Profit attributable to:			
Owners of the parent		139,003	406,672
Non-controlling interests		<u>(276)</u>	<u>(13)</u>
		<u>138,727</u>	<u>406,659</u>
Total comprehensive income attributable to:			
Owners of the parent		140,526	410,482
Non-controlling interests		<u>(276)</u>	<u>(13)</u>
		<u>140,250</u>	<u>410,469</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (expressed in RMB per share)	8	<u>0.13</u>	<u>0.39</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	<i>Notes</i>	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>9</i>	1,493,094	1,521,318
Right-of-use assets		98,780	83,907
Intangible assets		21,703	22,726
Equity investments designated at FVOCI	<i>10</i>	49,317	51,230
Deferred tax assets		30,896	39,912
Other non-current assets		9,687	5,884
		<hr/>	<hr/>
Total non-current assets		1,703,477	1,724,977
CURRENT ASSETS			
Inventories	<i>11</i>	209,491	274,208
Trade receivables	<i>12</i>	161,264	203,276
Notes receivable		50,656	82,761
Prepayments and other receivables		196,892	187,438
Restricted cash		1,578	3,896
Cash and cash equivalents		119,976	104,844
		<hr/>	<hr/>
Total current assets		739,857	856,423
CURRENT LIABILITIES			
Trade payables	<i>13</i>	173,164	283,273
Other payables and accruals		71,514	119,807
Contract liabilities		14,057	16,088
Interest-bearing bank and other borrowings	<i>14</i>	255,000	264,274
Income tax payable		18,748	42,849
Current portion of long-term bank and other borrowings	<i>14</i>	20,927	19,646
Dividends payable	<i>20</i>	95,238	–
		<hr/>	<hr/>
Total current liabilities		648,648	745,937
NET CURRENT ASSETS		<hr/> 91,209	<hr/> 110,486
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 1,794,686	<hr/> 1,835,463

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2020

	<i>Notes</i>	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income		22,740	23,434
Deferred tax liabilities		5,331	12,144
Interest-bearing bank and other borrowings	<i>14</i>	19,091	29,885
Lease liabilities		1,993	3,559
		<hr/>	<hr/>
Total non-current liabilities		49,155	69,022
		<hr/>	<hr/>
Net assets		1,745,531	1,766,441
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		66,861	67,088
Treasury shares		(2,234)	–
Reserves		1,680,904	1,699,077
		<hr/>	<hr/>
		1,745,531	1,766,165
		<hr/>	<hr/>
Non-controlling interests		–	276
		<hr/>	<hr/>
Total equity		1,745,531	1,766,441
		<hr/> <hr/>	<hr/> <hr/>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the parent											
	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Capital reserve RMB'000	Safety production fund RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Fair value reserve of financial assets at FVOCI RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020 (audited)	67,088	-	632,318	(105,894)	54,550	131,469	54,914	(5,720)	937,440	1,766,165	276	1,766,441
Profit for the period	-	-	-	-	-	-	-	-	139,003	139,003	(276)	138,727
Other comprehensive income for the period	-	-	-	-	-	-	6,326	(4,803)	-	1,523	-	1,523
Total comprehensive income for the period	-	-	-	-	-	-	6,326	(4,803)	139,003	140,526	(276)	140,250
Repurchase of own shares	-	(5,695)	-	-	-	-	-	-	-	(5,695)	-	(5,695)
2019 dividend and special dividend declared (Note 20)	-	-	(155,465)	-	-	-	-	-	-	(155,465)	-	(155,465)
Cancellation of own shares	(227)	3,461	(3,234)	-	-	-	-	-	-	-	-	-
Appropriation to safety production fund	-	-	-	-	5,352	-	-	-	(5,352)	-	-	-
At 30 June 2020 (unaudited)	<u>66,861</u>	<u>(2,234)</u>	<u>473,619</u>	<u>(105,894)</u>	<u>59,902</u>	<u>131,469</u>	<u>61,240</u>	<u>(10,523)</u>	<u>1,071,091</u>	<u>1,745,531</u>	<u>-</u>	<u>1,745,531</u>

For the six months ended 30 June 2019

	Attributable to owners of the parent											
	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Capital reserve RMB'000	Safety production fund RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Fair value reserve of financial assets at FVOCI RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019 (audited)	67,491	(11,031)	650,828	(105,764)	48,223	79,249	46,518	(1,005)	544,587	1,319,096	789	1,319,885
Profit for the period	-	-	-	-	-	-	-	-	406,672	406,672	(13)	406,659
Other comprehensive income for the period	-	-	-	-	-	-	2,678	1,132	-	3,810	-	3,810
Total comprehensive income for the period	-	-	-	-	-	-	2,678	1,132	406,672	410,482	(13)	410,469
Repurchase of own shares	-	(5,912)	-	-	-	-	-	-	-	(5,912)	-	(5,912)
2018 dividend declared (Note 20)	-	-	-	-	-	-	-	-	(66,527)	(66,527)	-	(66,527)
Cancellation of own shares	(324)	16,943	(16,619)	-	-	-	-	-	-	-	-	-
Appropriation to safety production fund	-	-	-	-	4,659	-	-	-	(4,659)	-	-	-
At 30 June 2019 (unaudited)	<u>67,167</u>	<u>-</u>	<u>634,209</u>	<u>(105,764)</u>	<u>52,882</u>	<u>79,249</u>	<u>49,196</u>	<u>127</u>	<u>880,073</u>	<u>1,657,139</u>	<u>776</u>	<u>1,657,915</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June*

	2020	2019
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	216,497	483,871
Income tax paid	(61,907)	(113,993)
	<hr/>	<hr/>
Net cash flows from operating activities	154,590	369,878
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for the purchase of property, plant and equipment, right-of-use assets, and intangible assets	(30,241)	(66,262)
Other cash flows used in investing activities	(19,374)	(34,435)
	<hr/>	<hr/>
Net cash flows used in investing activities	(49,615)	(100,697)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	209,000	127,986
Repayment of borrowings	(227,787)	(484,390)
Principal portion of lease liabilities	(4,811)	(101)
Dividend paid	(60,227)	–
Other cash flows (used in)/from financing activities	(5,695)	22,882
	<hr/>	<hr/>
Net cash flows used in financing activities	(89,520)	(333,623)
	<hr/>	<hr/>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	15,455	(64,442)
Cash and cash equivalents at beginning of the period	104,844	124,275
Effect of foreign exchange rate changes, net	(323)	(1,480)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	119,976	58,353
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NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is P.O. Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands.

The Company is an investment holding company. The Company's subsidiaries are involved in the following principal activities:

- manufacture and sale of dye and agricultural chemical intermediates
- manufacture and sale of pigment intermediates
- environmental technology consultancy services
- manufacture and sale of battery materials

In the opinion of the Directors, the de facto controlling shareholder of the Company is Mr. Ge Yi, who holds 51.52% voting right of the Company as at 30 June 2020.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time. Except for the amendment to HKFRS 16, the Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions</i>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

The amendments to HKFRS 9, HKAS 39 and HKFRS 7 *Interest Rate Benchmark Reform* are not relevant to the preparation of the interim financial information. The nature and impact of the other revised HKFRSs are described below:

Amendments to HKFRS 3: *Definition of a Business*

The amendment to HKFRS 3 clarifies 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. Furthermore, the amendments clarify that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to HKAS 1 and HKAS 8: *Definition of Material*

The amendments provide a new definition of material which states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Group, nor is there expected to be any future impact on the Group.

Amendment to HKFRS 16: *Covid-19-Related Rent Concessions*

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendment did not have any impact on the financial position and performance of the Group as there were no lease payments reduced or waived by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods and provision of consultancy and maintenance services	735,521	1,075,274

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	For the six months ended 30 June 2020				
Segments	Dye and agricultural chemical intermediates	Pigment intermediates	Environmental technology consultancy services	Battery materials	Total
Types of goods or services	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sale of chemical intermediates and battery materials	602,074	125,563	-	5,331	732,968
Provision of consultancy and maintenance services	-	-	2,553	-	2,553
Total revenue from contracts with customers	602,074	125,563	2,553	5,331	735,521
Geographical markets					
Mainland China	371,875	71,999	2,553	5,331	451,758
India	31,169	34,960	-	-	66,129
Germany	51,665	-	-	-	51,665
Indonesia	50,815	-	-	-	50,815
United States	26,893	8,419	-	-	35,312
Spain	29,875	-	-	-	29,875
Brazil	16,190	-	-	-	16,190
Taiwan, China	3,662	-	-	-	3,662
Other countries/regions	19,930	10,185	-	-	30,115
Total revenue from contracts with customers	602,074	125,563	2,553	5,331	735,521
Timing of revenue recognition					
Goods transferred at a point in time	602,074	125,563	-	5,331	732,968
Services transferred over time	-	-	2,553	-	2,553
Total revenue from contracts with customers	602,074	125,563	2,553	5,331	735,521

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

3. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Segments	For the six months ended 30 June 2019				
	Dye and agricultural chemical intermediates <i>RMB'000</i> (Unaudited)	Pigment intermediates <i>RMB'000</i> (Unaudited)	Environmental technology consultancy services <i>RMB'000</i> (Unaudited)	Battery materials <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Types of goods or services					
Sale of chemical intermediates and battery materials	904,332	152,812	–	5,136	1,062,280
Sale of environmental technology equipment	–	–	11,265	–	11,265
Provision of consultancy and maintenance services	–	–	1,729	–	1,729
Total revenue from contracts with customers	904,332	152,812	12,994	5,136	1,075,274
Geographical markets					
Mainland China	393,597	92,248	12,994	5,136	503,975
India	55,243	41,907	–	–	97,150
Germany	80,314	–	–	–	80,314
Indonesia	158,217	–	–	–	158,217
United States	40,555	10,215	–	–	50,770
Spain	60,440	–	–	–	60,440
Brazil	65,810	–	–	–	65,810
Taiwan, China	27,753	–	–	–	27,753
Other countries/regions	22,403	8,442	–	–	30,845
Total revenue from contracts with customers	904,332	152,812	12,994	5,136	1,075,274
Timing of revenue recognition					
Goods transferred at a point in time	904,332	152,812	11,265	5,136	1,073,545
Services transferred over time	–	–	1,729	–	1,729
Total revenue from contracts with customers	904,332	152,812	12,994	5,136	1,075,274

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four (2019: four) reportable operating segments as follows:

- (a) the dye and agricultural chemical intermediates segment produces dye intermediate products for the use in the production of dye-related products and products for the use in the production of agricultural chemicals;
- (b) the pigment intermediates segment produces pigment intermediate products for the use in the production of pigments;
- (c) the environmental technology consultancy services segment engages in environmental protection; and
- (d) the battery materials segment engages in the manufacture and sale of battery materials.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated mainly based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income, finance costs and other unallocated expenses of the Company and corporate expenses are excluded from such measurement.

The measurement of segment assets and liabilities is the same as that of the interim condensed consolidated statement of financial position as at 30 June 2020, excluding unallocated corporate assets and liabilities as these assets and liabilities are managed on a group basis.

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2020 and 2019.

Six months ended 30 June 2020 (unaudited)	Dye and agricultural chemical intermediates <i>RMB'000</i> (Unaudited)	Pigment intermediates <i>RMB'000</i> (Unaudited)	Environmental technology consultancy services <i>RMB'000</i> (Unaudited)	Battery materials <i>RMB'000</i> (Unaudited)	Total for segments <i>RMB'000</i> (Unaudited)	Corporate, other unallocated expenses and eliminations <i>RMB'000</i> (Unaudited)	Consolidated <i>RMB'000</i> (Unaudited)
Revenue							
External customers	602,074	125,563	2,553	5,331	735,521	-	735,521
Inter-segment	4,771	-	49	-	4,820	(4,820)	-
Total revenue	606,845	125,563	2,602	5,331	740,341	(4,820)	735,521
Results							
Segment profit	185,108	31,835	(3,008)	(22,896)	191,039	(12,384)	178,655
Including:							
Write-down of inventories to net realisable value	(1,180)	-	-	(8,451)	(9,631)	-	(9,631)

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

4. SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2019 (unaudited)	Dye and agricultural chemical intermediates <i>RMB'000</i> (Unaudited)	Pigment intermediates <i>RMB'000</i> (Unaudited)	Environmental technology consultancy services <i>RMB'000</i> (Unaudited)	Battery materials <i>RMB'000</i> (Unaudited)	Total for segments <i>RMB'000</i> (Unaudited)	Corporate, other unallocated expenses and eliminations <i>RMB'000</i> (Unaudited)	Consolidated <i>RMB'000</i> (Unaudited)
Revenue							
External customers	904,332	152,812	12,994	5,136	1,075,274	–	1,075,274
Inter-segment	713	–	2,961	–	3,674	(3,674)	–
Total revenue	905,045	152,812	15,955	5,136	1,078,948	(3,674)	1,075,274
Results							
Segment profit	546,114	36,652	288	(10,416)	572,638	(19,905)	552,733
Including: Write-down of inventories to net realisable value	(1,360)	–	–	–	(1,360)	–	(1,360)

The Group's non-current assets are substantially located in Mainland China.

The following table presents asset and liability information for the Group's operating segments as at 30 June 2020 and 31 December 2019, respectively.

	Dye and agricultural chemical intermediates <i>RMB'000</i>	Pigment intermediates <i>RMB'000</i>	Environmental technology consultancy services <i>RMB'000</i>	Battery materials <i>RMB'000</i>	Total for segments <i>RMB'000</i>	Corporate, other unallocated expenses and eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Assets							
30 June 2020 (unaudited)	1,962,372	347,617	106,028	316,894	2,732,911	(289,577)	2,443,334
31 December 2019 (audited)	2,045,358	286,549	116,427	372,750	2,821,084	(239,684)	2,581,400
Liabilities							
30 June 2020 (unaudited)	621,361	138,707	4,077	359,922	1,124,067	(426,264)	697,803
31 December 2019 (audited)	906,711	125,693	12,867	398,907	1,444,178	(629,219)	814,959

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

4. SEGMENT INFORMATION (CONTINUED)

Corporate and eliminations

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Reconciliation of profit		
Segment profit	191,039	572,638
Elimination of intersegment transactions	(1,052)	(6,185)
Corporate and other unallocated expenses	(11,332)	(13,720)
	<u>178,655</u>	<u>552,733</u>
Profit before tax	<u>178,655</u>	<u>552,733</u>

Information about major customers

For the first six months of 2020, revenue of RMB109,575,000 was derived from sales by the dye and agricultural chemical intermediates segment to a single customer.

For the first six months of 2019, revenue of RMB177,041,000 was derived from sales by the dye and agricultural chemical intermediates segment to another single customer.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings wholly repayable within five years	14,836	18,138
Other finance costs	3,168	8,474
Less: Interest expenses capitalised	(4,401)	(8,235)
	<u>13,603</u>	<u>18,377</u>

The weighted average interest rate of capitalisation for the six months ended 30 June 2020 was 7.23% (the six months ended 30 June 2019: 6.17%).

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived after charging:

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold	427,221	404,385
Cost of services provided	1,323	426
Depreciation of property, plant and equipment	43,104	32,948
Research and development costs	7,335	6,178
Depreciation of right-of-use assets	4,749	2,391
Amortisation of intangible assets	1,200	220
Lease payment not in the measurement of lease liabilities	485	–
Auditors' remuneration	1,725	1,619
Wages, salaries and welfare	54,857	64,608
Pension and other social insurances	5,729	14,270
Exchange losses, net	10,411	1,480
Loss on disposal of items of property, plant and equipment	994	1,196
Write-down of inventories to net realisable value	9,631	1,360

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

7. INCOME TAX EXPENSE

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed profit or loss are as follows:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Income taxes		
Current income tax expense	37,806	148,224
Deferred income tax expense	2,122	(2,150)
Total income tax charge for the period	<u>39,928</u>	<u>146,074</u>

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share attributable to ordinary equity holders of the parent is based on the following data:

	For the six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent (RMB'000)	<u>139,003</u>	<u>406,672</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation ('000)	<u>1,037,846</u>	<u>1,039,572</u>
Earnings per share		
Basic and diluted (RMB)	<u>0.13</u>	<u>0.39</u>

The Group did not have any dilutive potential ordinary shares during the six months ended 30 June 2020 or 2019.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

9. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2020, the Group acquired property, plant and equipment with an aggregate cost of RMB17,254,000 (the six months ended 30 June 2019: RMB42,581,000).

The amount of borrowing costs capitalised during the six months ended 30 June 2020 was approximately RMB4,401,000 (the six months ended 30 June 2019: RMB8,235,000).

Assets with a net book value of RMB2,374,000 were disposed of by the Group during the six months ended 30 June 2020 (the six months ended 30 June 2019: RMB1,474,000), resulting in a net loss on disposal of RMB994,000 (the six months ended 30 June 2019: net loss of RMB1,196,000).

During the six months ended 30 June 2020, no provision for impairment was made (the six months ended 30 June 2019: nil).

10. EQUITY INVESTMENTS DESIGNATED AT FVOCI

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Equity investments designated at FVOCI:		
Quoted equity investment, at fair value:		
Investments managed by an investment agency	236	8,413
Equity investments in a listed company	21,609	25,897
Unquoted equity investments, at fair value	27,472	16,920
	<u>49,317</u>	<u>51,230</u>

The gross loss in respect of the Group's financial assets at FVOCI recognised in other comprehensive income amounted to RMB4,803,000 for the six months ended 30 June 2020 (the six months ended 30 June 2019: a gain of RMB1,132,000).

11. INVENTORIES

During the six months ended 30 June 2020, the Group wrote down RMB9,631,000 (the six months ended 30 June 2019: RMB1,360,000) of inventories to their net realisable value.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

12. TRADE RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	162,047	204,059
Impairment provision	(783)	(783)
	<u>161,264</u>	<u>203,276</u>

The Group's trading terms with its customers are mainly on credit, except for new customers and small-sized customers, where payment in advance is normally required. The credit period is generally one month for domestic customers, extending up to three months for overseas customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control on certain of its outstanding receivables.

Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 month	85,667	108,563
1 month to 2 months	23,526	44,606
2 months to 3 months	8,337	20,345
3 months to 4 months	3,862	60
Over 4 months	39,872	29,702
	<u>161,264</u>	<u>203,276</u>

The movements in provision for impairment of trade receivables are as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
At 1 January	783	760
Impairment provided	-	23
	<u>783</u>	<u>783</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if the Group is satisfied that recovery of the amount is remote.

The Group applies the simplified approach to the provision for expected credit losses prescribed by HKFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. To measure the expected credit loss of trade receivables, trade debtors have been grouped based on shared credit risk characteristics and the ageing.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

13. TRADE PAYABLES

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 month	50,512	150,792
1 month to 2 months	7,844	17,303
2 months to 3 months	7,480	4,223
Over 3 months	107,328	110,955
	<u>173,164</u>	<u>283,273</u>

The trade payables are non-interest-bearing and are normally settled on 30-day to 90-day terms.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2020 RMB'000 (Unaudited)			31 December 2019 RMB'000 (Audited)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	4.61-8.40	2020	255,000	4.61-7.20	2020	264,274
Other borrowings – secured	10.83-13.45	2021	20,927	10.83-13.45	2020	19,646
			<u>275,927</u>			<u>283,920</u>
Non-current						
Other borrowings – secured	10.83-13.45	2022	19,091	10.83-13.45	2022	29,885
			<u>19,091</u>			<u>29,885</u>
Total			<u>295,018</u>			<u>313,805</u>
Analysed into:						
Bank and other borrowings repayable:						
Within one year			275,927			283,920
In the second year			19,091			27,748
In the third year to fifth year, inclusive			–			2,137
Total			<u>295,018</u>			<u>313,805</u>

Certain of the Group's property, plant and equipment, right-of-use assets and trade receivables with net carrying amounts of approximately RMB265.8 million (31 December 2019: approximately RMB204.0 million) were pledged to secure bank and other borrowings as well as banking facilities granted to the Group.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

15. CASH AND CASH EQUIVALENTS

For the purpose of the unaudited interim condensed consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

	30 June 2020	30 June 2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash and bank balances	121,554	79,345
Less: Restricted cash	<u>(1,578)</u>	<u>(20,992)</u>
Cash and cash equivalents	<u>119,976</u>	<u>58,353</u>
Denominated in RMB	114,961	49,721
Denominated in other currencies	<u>5,015</u>	<u>8,632</u>
Cash and cash equivalents	<u>119,976</u>	<u>58,353</u>

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e., unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e., observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

At 30 June 2020 and 31 December 2019, the financial instruments of the Group carried at fair value were equity investments at FVOCI. These instruments fall into Level 1 and Level 3 of the fair value hierarchy described above, respectively.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial assets and liabilities measured at fair value (continued)

	Fair value measurements as at 30 June 2020 categorised into			
	Fair value at 30 June 2020 <i>RMB'000</i> (Unaudited)	Quoted prices in active markets for identical assets (Level 1) <i>RMB'000</i> (Unaudited)	Significant other observable inputs (Level 2) <i>RMB'000</i> (Unaudited)	Significant unobservable inputs (Level 3) <i>RMB'000</i> (Unaudited)
Financial assets:				
Quoted equity investments at fair value	21,845	21,845	-	-
Unquoted equity investments at fair value	27,472	-	-	27,472
	<u>49,317</u>	<u>21,845</u>	<u>-</u>	<u>27,472</u>

	Fair value measurements as at 31 December 2019 categorised into			
	Fair value at 31 December 2019 <i>RMB'000</i> (Audited)	Quoted prices in active markets for identical assets (Level 1) <i>RMB'000</i> (Audited)	Significant other observable inputs (Level 2) <i>RMB'000</i> (Audited)	Significant unobservable inputs (Level 3) <i>RMB'000</i> (Audited)
Financial assets:				
Quoted equity investments at fair value	34,310	34,310	-	-
Unquoted equity investment at fair value	16,920	-	-	16,920
	<u>51,230</u>	<u>34,310</u>	<u>-</u>	<u>16,920</u>

The fair values of listed and quoted equity investments are based on quoted market prices. The Group invests in unlisted investments, which represent investment in funds. The Group has estimated the fair value of the investments based on net assets of the underlying projects of the funds. The Directors believe that the estimated fair values resulting from the valuation technique, which is recorded in the consolidated statement of financial position, and the related changes in fair value, which is recorded in other comprehensive income, is reasonable, and that it was the most appropriate value at the end of the reporting period.

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2020 and 31 December 2019.

17. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2020 (31 December 2019: nil).

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

18. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contracted, but not provided for:		
Plant and machinery	139,746	144,688

19. RELATED PARTY DISCLOSURES

The following table provides the total amounts of transactions that have been entered into with related parties during the six months ended 30 June 2020 and 2019:

(a) Transactions with related parties:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Purchases of products and services:		
Cangzhou Qianshengyuan Hotel Management Co., Ltd.	–	237
Cangzhou Wugu Food Technology Co., Ltd.	127	300
Cangzhou Aomu Agricultural Development Co., Ltd.	22	227
Huage Holdings Group Co., Ltd. (“ Huage Holdings ”)	260	–
Dezhou Wugu Food Technology Co., Ltd.	9	–

Notes:

- (i) The purchases from the related parties were made according to the published prices and conditions offered by the related parties to their major customers.
- (ii) These related parties are all entities controlled by close family members of the de facto controlling shareholder of the Group.

(b) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Compensation paid to key management personnel	2,335	2,507

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2020

20. DIVIDENDS

- (i) The Board declared to pay an interim dividend for the six months ended 30 June 2020 (the six months ended 30 June 2019: nil).

	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)
Interim dividend approved by the Board after the end of the reporting period of RMB0.048 per share (the six months ended 30 June 2019: nil)	49,591	–

- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, declared during the interim period.

	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)
Final dividend declared during the period in respect of the previous financial year of RMB0.092 per share (the six months ended 30 June 2019: RMB0.064 per share)	95,238	66,527
Special dividend declared and paid during the period of RMB0.058 per share (the six months ended 30 June 2019: nil)	60,227	–
	155,465	66,527

21. EVENTS AFTER THE REPORTING PERIOD

As of the date of this announcement, except for the interim dividend declared for the six months ended 30 June 2020 as set out in note 20, the Group had no significant event after the reporting period required to be disclosed.

22. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2020 was authorised for issue in accordance with a resolution of the Board on 21 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW

Operating segment results

For the period ended 30 June 2020

	Dye and agricultural chemical intermediates	Pigment intermediates	Environmental technology consultancy services	Battery materials	Total
Revenue (RMB' 000)	602,074	125,563	2,553	5,331	735,521
Cost of sales (RMB' 000)	338,357	69,716	1,323	19,148	428,544
Sales volume (tonnes)	31,998	4,106	N/A	538	36,642
Gross profit margin	43.8%	44.5%	48.2%	(259.2%)	41.7%
Average unit selling price (RMB/tonne)	18,816	30,580	N/A	9,909	N/A

For the period ended 30 June 2019

	Dye and agricultural chemical intermediates	Pigment intermediates	Environmental technology consultancy services	Battery materials	Total
Revenue (RMB' 000)	904,332	152,812	12,994	5,136	1,075,274
Cost of sales (RMB' 000)	289,422	96,710	9,014	9,665	404,811
Sales volume (tonnes)	19,194	5,363	N/A	534	25,091
Gross profit margin	68.0%	36.7%	30.6%	(88.2%)	62.4%
Average unit selling price (RMB/tonne)	47,115	28,494	N/A	9,618	N/A

During the Review Period, total revenue of the Group decreased by approximately 31.6% to approximately RMB735.5 million (first half of 2019: approximately RMB1,075.3 million) as compared with that in the first half of 2019, and the overall gross profit of the Group decreased by approximately 54.2% period-on-period to approximately RMB307.0 million (first half of 2019: approximately RMB670.5 million), mainly due to the decrease in average market price of dye intermediates. Compared with the same period in 2019, the Group substantially reduced the sales price of DSD Acid, our core product, to boost the downstream demand and promote the industry development in response to the changes in the market, thereby decreasing the overall gross profit margin of the Group by 20.7 percentage points period-on-period to approximately 41.7% (first half of 2019: approximately 62.4%).

During the Review Period, profit attributable to equity holders of the Company decreased by approximately 65.8% period-on-period to approximately RMB139.0 million (first half of 2019: approximately RMB406.7 million) in line with the decrease of the gross profit and gross profit margin. The profit margin attributable to equity holders of the Company decreased by 18.9 percentage points period-on-period to approximately 18.9% (first half of 2019: approximately 37.8%). In view of the Group's leading position in the industry and excellent operational capabilities, the Company is confident about its future development.

Dye and agricultural chemical intermediates – accounting for approximately 81.9% of total revenue (first half of 2019: 84.1%)

The Group is the world's largest manufacturer of DSD Acid. DSD Acid is mainly used in the production of optical brightening agents, and its end applications include brightening elements of bleach for textile, brightening of paper and detergents.

The Group is one of the world's three largest mononitrotoluene manufacturers. PNT, ONT and MNT are collectively called mononitrotoluene. PNT is the major raw material for DSD Acid production. After commencing its own production of mononitrotoluene, the Group is able to stabilise the upstream supply of raw materials. Meanwhile, ONT and OT are important agricultural chemical intermediates in the production of herbicides.

During the Review Period, due to the unstable factors such as Coronavirus (COVID-19) outbreak that brought adverse effects on the global market, the entire industry was in a generally dismal condition. Against this backdrop, the Group significantly reduced the sales price of DSD Acid to stimulate consumption, thus driving the recovery of the industrial chain. For this reason, the revenue of dye intermediate products decreased by approximately 52.2% to approximately RMB380.4 million as compared with that in the same period of 2019.

Affected by the pandemic, the supply of agricultural chemical intermediates market was inadequate, while the Group had sufficient inventory reserves at the beginning of the year and gained new customers. As a result, the sales volume of agricultural chemical intermediates increased significantly, leading to an increase of the revenue of the Group's agricultural chemical intermediates by approximately 103.0% to approximately RMB221.7 million as compared with that in the same period of 2019.

The total revenue of this segment for the Review Period decreased by approximately 33.4% to approximately RMB602.1 million (first half of 2019: approximately RMB904.3 million) as compared with that in the same period of last year, accounting for approximately 81.9% of the Group's overall revenue.

As for gross profit, the overall gross profit of this segment decreased by approximately 57.1% to approximately RMB263.7 million (first half of 2019: approximately RMB614.9 million), and the gross profit margin decreased by 24.2 percentage points to approximately 43.8% (first half of 2019: approximately 68.0%), as compared with that in the same period of 2019. Among them, the gross profit of dye intermediates decreased by approximately 65.8% to approximately RMB205.9 million, and the gross profit margin decreased by 21.6 percentage points to approximately 54.1%. The gross profit of agricultural chemical intermediates increased by approximately 349.9% to approximately RMB57.8 million, and the gross profit margin increased by 14.3 percentage points to approximately 26.1%.

Pigment intermediates - accounting for approximately 17.1% of total revenue (first half of 2019: 14.2%)

As the world's largest DMSS manufacturer and distributor, the Group is also the world's main manufacturer of other major pigment intermediates such as DMAS and DIPS. Pigment intermediates are mainly used in high performance pigments such as printing inks, food additives, automobile paints and coatings.

During the Review Period, as influenced by the market environment, the revenue of pigment intermediates segment decreased by approximately 17.8% to approximately RMB125.6 million (first half of 2019: approximately RMB152.8 million) as compared with that in the same period of last year, accounting for approximately 17.1% of the Group's overall revenue.

As for gross profit, the overall gross profit of the segment is approximately RMB55.8 million, almost the same as the same period of last year (approximately RMB56.1 million), and the gross profit margin of the segment increased by 7.8 percentage points to approximately 44.5% (first half of 2019: approximately 36.7%), as compared with that in the same period of 2019.

Environmental technology consultancy services – accounting for approximately 0.3% of total revenue (first half of 2019: 1.2%)

With mounting pressure for environmental protection in China, the environmental protection treatment market possesses tremendous development potential. Leveraging on the Group's experience in environmental protection treatment accumulated over the years, the Group proactively cooperates with third parties to carry out environmental protection consultancy business with a focus on environmental technology consultancy services in air, sewage, and solid waste treatment.

During the Review Period, the Group's environmental protection business recorded a revenue of approximately RMB2.6 million (first half of 2019: approximately RMB13.0 million), with the gross profit margin increasing by 17.6 percentage points to approximately 48.2% (first half of 2019: approximately 30.6%), as compared with that in the same period of 2019.

Battery materials – accounting for approximately 0.7% of total revenue (first half of 2019: 0.5%)

The production line for 15,000 tonnes of iron phosphate of the Group was ready for commencement of mass production in December 2019. During the Review Period, the Group gradually began supplying the products to the downstream customers with a one-step process technique, and received positive feedbacks from customers.

During the Review Period, the battery materials segment recorded a revenue of approximately RMB5.3 million. Due to the high unit cost of the initial finished product, the Company made an impairment provision of approximately RMB8.45 million against the inventories based on the latest lower selling price of such products at the end of the Review Period, resulting in a decrease in the gross margin of products during the Review Period as compared with that in the same period of 2019.

EXPORT

During the Review Period, the export revenue of the Group amounted to approximately RMB283.8 million, representing a decrease of approximately RMB287.5 million or 50.3% as compared with the export revenue of approximately RMB571.3 million for the same period in 2019, mainly due to the decrease in the average sales price of dye intermediates.

During the Review Period, the export revenue accounted for approximately 38.6% of the total revenue, while the export revenue accounted for approximately 53.1% for the same period in 2019. The decrease in the proportion of export revenue was mainly due to the substantial increase in the Group's revenue from agricultural chemical intermediates, while the export proportion of such products was relatively low.

BUSINESS OUTLOOK

During the Review Period, the Coronavirus (COVID-19) pandemic swept across the world, which heavily affected the economy and plunged the global economies into a varying degrees of recession. Due to the tumults in the financial market and the spread of panic in the global capital market, people tended to hold pessimistic expectations for short-term investment and consumption. Moreover, international crude oil prices fluctuated significantly, resulting in the drastic fluctuation in prices of many raw materials. The continuous existence and escalation of Sino-U.S. trade frictions, together with other factors such as the complicated geopolitical relations, led to challenging business environment during the Review Period. Faced with the complex and changing market conditions, the Group realised its stable development by continuously strengthening cost control, improving the safety production management, increasing investment in environmental protection and research and development, enhancing the awareness of risk management and control, and ramping up efforts in product market expansion.

By virtue of comprehensive competitive advantage accumulated in years of experience in the fine chemical production and operation, and its stable market position, the Group has demonstrated a good performance in respect of risk resistance capacity and sustainable profitability in this crisis. In order to stimulate the downstream demand to promote industry development, the Group substantially lowered the sales price of DSD Acid, a core product of the Group. It also made timely and favorable adjustments to the pricing of products in other business segments with a view to stabilising the Group's performance. Despite the multiple uncertainties in respect of the prospect of global economic development, we remain confident that we can ride out the crisis and continue to create value for our shareholders considering the Group's leading position in the industry and excellent operation ability.

Looking forward, the Group will continuously improve production technologies of existing products and enhance product quality while reducing production cost. Depending on the industry development, we will also continue to increase investment in environmental protection and the research and development of technologies thereof. In addition to further developing its existing business, the Group will seek merger and acquisition of businesses with synergy, and continue to consolidate the competitive advantage of industry chain as and when there are good opportunities. We will continue to enhance the financial management of the Group, maintain sufficient operating cash flow so as to keep the overall financial risk of the Group at a normal and controllable level. With the steady recovery of the world economy and the gradual recovery of downstream demand, we believe that the Group's business will develop steadily in the established direction by leveraging its stable production and operation, sound cash flow and strong ability in research and development and business expansion.

FINANCIAL REVIEW

Revenue and gross profit

During the Review Period, the revenue and gross profit of the Group amounted to approximately RMB735.5 million and approximately RMB307.0 million respectively, representing a decrease of approximately RMB339.8 million or 31.6% and approximately RMB363.5 million or 54.2% from approximately RMB1,075.3 million and approximately RMB670.5 million respectively for the same period in 2019. During the Review Period, the gross profit margin of the Group was approximately 41.7%, as compared with approximately 62.4% for the same period in 2019.

Net Profit and Net Profit Margin

During the Review Period, the net profit of the Group was approximately RMB138.7 million, representing a decrease of approximately RMB268.0 million or 65.9% as compared with approximately RMB406.7 million for the same period in 2019. During the Review Period, the net profit margin of the Group was approximately 18.9%, as compared with approximately 37.8% for the same period in 2019.

Selling and distribution expenses

During the Review Period, selling and distribution expenses amounted to approximately RMB20.2 million, representing a decrease of approximately RMB1.5 million as compared with that in the same period of 2019. During the Review Period, selling and distribution expenses represented approximately 2.7% of the Group's revenue (for the six months ended 30 June 2019: approximately 2.0%).

Administrative expenses

During the Review Period, administrative expenses amounted to approximately RMB84.8 million, representing an increase of approximately RMB9.7 million as compared with approximately RMB75.1 million for the same period in 2019. The increase in administrative expenses was mainly attributable to a substantial extension of the suspension period due to the COVID-19 pandemic as compared with that for the same period last year, and the reflection of the depreciation of production lines and labor costs in administrative expenses. In the case of non-stop production, the above-mentioned expenses should be included into costs rather than administrative expenses.

During the Review Period, administrative expenses represented approximately 11.5% of the Group's revenue (for the six months ended 30 June 2019: approximately 7.0%).

Finance costs

During the Review Period, finance costs amounted to approximately RMB13.6 million, representing a decrease of approximately RMB4.8 million as compared with approximately RMB18.4 million for the same period in 2019. The decrease was mainly attributable to the decrease in interest expenditure in relation to bank and other borrowings fully repayable within five years and the relevant handling fees.

Exchange losses, net

During the Review Period, the net exchange losses amounted to approximately RMB10.4 million as compared with approximately RMB1.5 million for the same period in 2019, which was mainly due to the fluctuation of the exchange rate of Renminbi against US dollar during the Review Period.

Income tax expense

The PRC subsidiaries of the Company are generally subject to the PRC enterprise income tax at a rate of 25%. One of the subsidiaries of the Company in Hong Kong is subject to the two-tier tax regime, i.e., the first HK\$2 million of assessable profits earned will be taxed at half the current Hong Kong profits tax rate (i.e., 8.25%), and the remaining assessable profits will continue to be taxed at 16.5%. Other Hong Kong subsidiaries of the Company are generally subject to the Hong Kong profits tax at a rate of 16.5%. The Singapore subsidiaries of the Company are generally subject to the Singapore Enterprise Income Tax at a rate of 17%.

During the Review Period, income tax expenses amounted to approximately RMB39.9 million, representing a decrease of approximately RMB106.2 million as compared with approximately RMB146.1 million for the same period in 2019. The decrease in income tax expense was mainly attributable to the decrease in profit before tax during the Review Period as compared with that in the same period of 2019.

Cash flows

During the Review Period, the Group's net cash inflows from operating activities were approximately RMB154.6 million, representing a decrease of approximately RMB215.3 million as compared with approximately RMB369.9 million for the same period in 2019, which was mainly due to the decrease in profit from principal operations during the Review Period.

During the Review Period, the Group's net cash outflows from investing activities were approximately RMB49.6 million, representing a decrease of approximately RMB51.1 million as compared with approximately RMB100.7 million for the same period in 2019. The decrease was mainly due to a decrease in capital expenditure and payments for the production line constructed by Tsaker Chemical (Dongying) Co., Ltd., a wholly-owned subsidiary of the Company, as well as a decrease in the expenditure for investing in financial assets for the current period as compared with the same period last year.

During the Review Period, the Group's net cash outflows from financing activities were approximately RMB89.5 million, representing a decrease of approximately RMB244.1 million as compared with approximately RMB333.6 million of the net cash outflows from financing activities for the same period in 2019, which was mainly due to the repayment of syndicated loans in the same period of last year.

FUNDING AND TREASURY POLICY

The Group has adopted a prudent financial management approach towards its treasury policy and thus maintained a healthy liquidity position throughout the six months ended 30 June 2020. 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.

LIQUIDITY AND CAPITAL STRUCTURE

During the Review Period, the daily working capital of the Group was primarily derived from internally generated cash flow from operations and bank borrowings. As at 30 June 2020, the Group had (i) cash and cash equivalents of approximately RMB120.0 million, which include approximately RMB115.0 million denominated in RMB and approximately RMB5.0 million in other currencies (USD, HKD and SGD) (31 December 2019: approximately RMB104.8 million, which include RMB100.2 million denominated in RMB and approximately RMB4.6 million in other currencies (USD, HKD and SGD)); (ii) restricted cash of approximately RMB1.6 million, denominated in RMB (31 December 2019: approximately RMB3.9 million, which include approximately RMB3.8 million denominated in RMB and approximately RMB0.1 million in another currency (USD)); and (iii) interest-bearing bank and other borrowings of approximately RMB295.0 million, of which (a) approximately RMB295.0 million are denominated in RMB with interest rate from 4.61% to 13.45% per annum, and approximately RMB275.9 million shall be repayable within one year (31 December 2019: approximately RMB313.8 million, which include approximately RMB223.5 million denominated in RMB and approximately RMB90.3 million in another currency (USD) with interest rate from 4.61% to 13.45% per annum, of which approximately RMB283.9 million shall be repayable within one year); and (b) approximately RMB295.0 million are at a fixed interest rate (31 December 2019: approximately RMB223.5 million). As at 30 June 2020, the Group has unutilised banking facilities of RMB26.0 million and USD2.0 million.

During the Review Period, the Group did not use any risk hedging instrument or have any borrowing or hedge in its foreign currency investment.

GEARING RATIO

As at 30 June 2020, the Group's gearing ratio was approximately 16.9% as compared with approximately 17.8% as at 31 December 2019, which is calculated at interest-bearing bank and other borrowings at the end of the period divided by total equity.

CURRENT ASSETS

As at 30 June 2020, total current assets of the Group amounted to approximately RMB739.9 million (31 December 2019: approximately RMB856.4 million), primarily consisting of inventories of approximately RMB209.5 million (31 December 2019: approximately RMB274.2 million), trade and notes receivables of approximately RMB211.9 million (31 December 2019: approximately RMB286.0 million), prepayments and other receivables of approximately RMB196.9 million (31 December 2019: approximately RMB187.4 million), cash and cash equivalents of approximately RMB120.0 million (31 December 2019: approximately RMB104.8 million), restricted cash of approximately RMB1.6 million (31 December 2019: approximately RMB3.9 million).

INVENTORIES

Inventories of the Group mainly include raw materials, work-in-progress and finished products. The turnover days for inventories decreased from 112 days in 2019 to 102 days in 2020 during the Review Period. The decrease in turnover days was mainly due to a decrease in the stock quantity and the unit price of major raw materials in 2020.

TRADE AND NOTES RECEIVABLES

As at 30 June 2020, trade and notes receivables of the Group were approximately RMB211.9 million in aggregate, representing a decrease of approximately RMB74.1 million as compared with that as at 31 December 2019, which was mainly due to the decrease in sales revenue during the credit period.

The turnover days for trade and notes receivables were 61 days during the Review Period while those for the year 2019 were 54 days. The turnover of the Company's trade and notes receivables is of high efficiency.

PREPAYMENTS AND OTHER RECEIVABLES

As at 30 June 2020, prepayments and other receivables of the Group were approximately RMB196.9 million in aggregate, representing an increase of approximately RMB9.5 million as compared with approximately RMB187.4 million in aggregate as at 31 December 2019.

CURRENT LIABILITIES

As at 30 June 2020, total current liabilities of the Group amounted to approximately RMB648.6 million (31 December 2019: approximately RMB745.9 million), primarily consisting of trade and notes payables of approximately RMB173.2 million (31 December 2019: approximately RMB283.3 million), other payables and accruals of approximately RMB71.5 million (31 December 2019: approximately RMB119.8 million), interest-bearing bank and other borrowings of approximately RMB275.9 million (31 December 2019: approximately RMB283.9 million), income tax payables of approximately RMB18.7 million (31 December 2019: approximately RMB42.8 million), and dividends payables of approximately RMB95.2 million (31 December 2019: nil).

TRADE PAYABLES

The turnover days for trade payables were 96 days during the Review Period while those for the year 2019 were 146 days. The decrease in the turnover days was mainly due to the substantial decrease in purchases at the end of the Review Period, the decrease in the balance of account payables at the end of the Review Period, and the increase in main operation costs resulting from the rising sales volume during the Review Period.

OTHER PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES

As at 30 June 2020, other payables and accruals and contract liabilities of the Group were approximately RMB85.6 million in aggregate, representing a decrease of approximately RMB50.3 million as compared with approximately RMB135.9 million in aggregate as at 31 December 2019.

PLEDGE OF ASSETS

As at 30 June 2020, certain of the Group's property, plant and equipment, right-of-use assets and trade receivables with net carrying amounts of approximately RMB265.8 million (31 December 2019: approximately RMB204.0 million) were pledged to secure bank and other borrowings as well as banking facilities granted to the Group.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

There were no material acquisitions, disposals (including material acquisitions and disposals of subsidiaries, associates and joint ventures) or significant investment of the Group for the six months ended 30 June 2020.

CAPITAL COMMITMENTS

For details of the Group's capital commitments, please refer to note 18 to the financial statements.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 30 June 2020 and the date of this announcement, save as disclosed under the section headed "Application of Proceeds from Listing" and note 18 to the financial statements, the Group had no other plans for other material investment or acquisition of capital assets.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2020 (31 December 2019: nil).

FOREIGN EXCHANGE RISK

Foreign exchange risk refers to the risk of loss caused by fluctuation in exchange rate. The foreign exchange risk of the Group is mainly related to its operating activities and financing activities. The operation of the Group may be affected by the future fluctuation in exchange rate. The Group is closely monitoring the impact of changes in currency exchange rates on the Group's foreign exchange risk.

The Group currently does not have any hedging policy for foreign currency in place. However, the Board will remain alert to any foreign currency risk and, if necessary, consider hedging any potential material foreign currency risk.

EMPLOYEES AND REMUNERATION POLICIES

The Group has established its human resources policies and system with a view to add more incentives and rewards to the remuneration system, which include a wide range of training and personal development programs for its employees.

The remuneration package offered to the staff was in line with the duties and the prevailing market terms. Staff benefits, including bonus, pension, medical coverage and provident funds, etc., are also provided to employees of the Group.

As at 30 June 2020, the Group had 1,534 employees (as at 30 June 2019: 1,570) in aggregate.

For the six months ended 30 June 2020, the total staff costs of the Group (including wages, bonuses, social insurances and provident funds) amounted to approximately RMB60.6 million (for the six months ended 30 June 2019: approximately RMB78.9 million). The decrease in staff costs was mainly due to the decrease in bonus provided as a result of performance decline and the government's policy of social security exemption during the pandemic.

APPLICATION OF PROCEEDS FROM LISTING

Trading of the shares of the Company (the “**Shares**”) on the Main Board of the Stock Exchange commenced on 3 July 2015, and the net proceeds from the listing of the Group amounted to approximately RMB378.8 million. The net proceeds were used for the purposes as disclosed in the use of proceeds of the prospectus of the Company dated 23 June 2015 (the “**Prospectus**”).

As at 30 June 2020, the net proceeds of approximately RMB37.9 million had been used as additional working capital, approximately RMB189.4 million had been used to expand production capacity, approximately RMB37.9 million had been used to develop new products, and approximately RMB18.9 million had been used to pay the rents of Phase I and Phase II of Shandong Tsaker Dongao Chemicals Lo., Ltd. (“**Tsaker Dongao**”) and approximately RMB20.6 million had been used to acquire the entire equity interests in Tsaker Dongao and other chemicals manufacturers.

As at 30 June 2020, the balance of unutilised net proceeds amounted to approximately RMB74.1 million, which are intended to be used to acquire ONT/OT downstream manufacturers and/or other chemicals manufacturers. The major uncertainties in the domestic and international political and economic environment, and the increasingly stringent environmental protection and safety supervision in China pose great challenges for the Group to carry out its acquisition of businesses. The Group is still actively seeking acquisition targets and conducting negotiations thereon. As at the date of this announcement, no legally-binding agreements in relation to such acquisitions have been entered into. The Group will closely monitor changes in market conditions and the unutilised net proceeds are intended to be fully utilised by the end of 2021 for the purposes disclosed in the Prospectus.

EVENTS SUBSEQUENT TO THE REVIEW PERIOD

Except for the interim dividend declared by the Board, the Group did not have any significant events from 30 June 2020 and up to the date of this announcement.

INTERIM DIVIDENDS

The Board resolved to declare and pay an interim dividend of RMB0.048 per share for the six months ended 30 June 2020 (for the six months ended 30 June 2019: nil).

The interim dividend shall be paid on 6 November 2020 (Friday) to the shareholders of the Company whose names appear on the register of members of the Company on 9 September 2020 (Wednesday). The interim dividend shall be declared in RMB and paid in Hong Kong dollars. The relevant exchange rate is HK\$1: RMB0.894, being the average of the middle exchange rate for the conversion of RMB against Hong Kong dollars as announced by the People’s Bank of China for the five business days immediately preceding 21 August 2020. The interim dividend payable in Hong Kong dollars shall be HK\$0.054 per share, and the calculation method is as follows:

$$\frac{\text{RMB0.048 per share}}{\text{Exchange rate 0.894}} = \text{HK\$0.054 per share}$$

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 7 September 2020 (Monday) to 9 September 2020 (Wednesday), both days inclusive. To qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 4 September 2020 (Friday).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities of the Company

For the half year ended 30 June 2020, as the Board believed that the value of the shares of the Company could not reflect their intrinsic value and the repurchase of shares would reflect the Board's confidence in the Company's development prospects, the Company repurchased a total of 5,249,500 shares of the Company on the Stock Exchange at the total consideration (before expenses) of HK\$6,234,095. The 3,200,000 repurchased shares were cancelled on 19 June 2020. The remaining 2,049,500 repurchased shares were subsequently cancelled on 20 July 2020.

Details of the repurchase made by the Company are as follows:

Month	Total number of shares repurchased	Highest purchase price per share <i>HK\$</i>	Lowest purchase price per share <i>HK\$</i>	Total consideration (before expenses) <i>HK\$</i>
June 2020	5,249,500	1.26	1.12	6,234,095

Save as disclosed above, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

Corporate Governance Practices

The Group endeavours to maintain high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability. The Company has adopted the corporate governance code in Appendix 14 to the Listing Rules as its own code of corporate governance.

For the six months ended 30 June 2020, the Company has complied with all the code provisions of the corporate governance code set out therein, except for code provision A.2.1 of the corporate governance code. In accordance with code provision A.2.1 of the corporate governance code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company deviates from the code provision A.2.1 because Mr. Ge Yi performs both the roles of the chairman and the chief executive officer of the Company. Since Mr. Ge Yi has been with the Group for many years, he has a thorough understanding of the Group's business, management, customers and products. With his extensive experience in the business operation and management, the Board believes that vesting the two roles in the same individual provides the Company with strong and consistent leadership and facilitates effective implementation and execution of the Group's business decisions and strategies, and is beneficial to the business prospects and management of the Company.

Under the leadership of Mr. Ge Yi, the Board is and has been able to work effectively and performs its responsibilities with key and appropriate issues discussed in a timely manner. In addition, all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive Directors on the Board offering independent perspectives. The Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers and authorities between the Board and the management of the Company. To maintain a high standard of corporate governance practices of the Company, the Board shall nevertheless review the effectiveness of the structure and composition of the Board from time to time in light of prevailing circumstances.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries to all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the six months ended 30 June 2020.

Audit Committee and Review of Financial Statements

The Board has established an audit committee of the Board (the “**Audit Committee**”) according to the Listing Rules, which comprises three independent non-executive Directors, namely Mr. Zhu Lin (chairman), Mr. Yu Miao and Mr. Ho Kenneth Kai Chung.

The unaudited interim financial statements of the Group for the six months ended 30 June 2020 have been reviewed by the Audit Committee. Ernst & Young, the independent auditor of the Company, conducted an independent review on the interim financial information of the Company for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. The review report of the interim financial information will be set out in the interim report to be dispatched to the shareholders of the Company.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tsaker.com), and the interim report for the six months ended 30 June 2020 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the above websites in due course.

By order of the Board
Tsaker Chemical Group Limited
GE Yi
Chairman

Beijing, the PRC, 21 August 2020

As at the date of this announcement, the Board comprises Mr. GE Yi (Chairman), Mr. BAI Kun and Ms. ZHANG Nan as executive Directors; Mr. FONTAINE Alain Vincent as a non-executive Director; and Mr. HO Kenneth Kai Chung, Mr. ZHU Lin and Mr. YU Miao as independent non-executive Directors.

* *For identification purpose only*