



Anchun International Holdings Ltd.

(Incorporated in Singapore)
(Company registration number: 200920277C)

Unaudited Results for the Second Quarter and Half Year Ended 30 June 2019

INTRODUCTION

Anchun International Holdings Ltd. ("Anchun") is a leading integrated EPC provider of process technology, design, manufacturing and engineering services to the PRC environmental protection industry, and petrochemical and chemical industries, in particular, ammonia and methanol industries.

Anchun's integrated business model is anchored on strong R&D capabilities and registered patents for our key technologies, and allows us to capture value across the value chain from system design, system manufacturing and project management, and after-sales. Based on core principles of production efficiency, energy saving and environmental protection, our range of integrated chemical systems engineering and technology solutions can be broadly categorised as follows:-

- (i) Chemical systems engineering and technology design services (**Engineering Services**);
- (ii) Chemical systems and components, including reactors applicable in a wide range of various reactions, pressure vessels and other auxiliary equipment; along with chemical process technologies such as alcohol-hydrocarbon reactor technology, ammonia synthesis reactor technology and methanol synthesis reactor technology, gasification technology and CO shift technology ("**CSC Business**"); and
- (iii) Catalysts and pre-reduced catalysts and other products ("**Catalysts Business**")

Anchun's chemical systems are generally used by our customers to produce ammonia and methanol, which are subsequently used as crucial feedstock in our customers' production system to produce other downstream products such as urea, compound fertiliser, methanol fuel, formaldehyde, dimethyl ether and explosives.

Anchun has received several enterprise awards and accolades, including status of designated company for technological support for China Petroleum & Chemical Industry in Environmental Protection and Green Production (中国石油和化工行业环境保护与清洁生产重点支撑技术单位) and 2013 outstanding technological advancement award (工业科技进步奖) conferred by both China Fertilizer Industry Association (中国氮肥工业协会) and China Petroleum and Chemical Industries Association (中国石油和化学工业联合会).

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a)(i) An income statement and statement of comprehensive income or a statement of comprehensive income (for the Group) together with a comparative statements for the corresponding period of the immediately preceding financial year.

The Group's operations are principally conducted in the People's Republic of China ("PRC"). Accordingly, the consolidated financial statements have been prepared in Chinese Renminbi ("RMB"), being the functional currency of the Company and its subsidiary.

	Group			Group		
	Unaudited	Unaudited	Change	Unaudited	Unaudited	Change
	3 months ended			6 months ended		
	30/06/2019	30/06/2018	%	30/06/2019	30/06/2018	%
	RMB'000	RMB'000		RMB'000	RMB'000	
Revenue	52,977	31,345	69	74,067	48,660	52
Cost of sales	(44,167)	(26,487)	67	(61,481)	(40,071)	53
Gross Profit	8,810	4,858	81	12,586	8,589	47
Other item of income						
Finance and other income	1,850	3,161	(41)	3,042	7,264	(58)
Write-back of impairment losses on financial assets, net	–	1,155	(100)	–	1,155	(100)
Other items of expenses						
Marketing and distribution expenses	(1,258)	(1,091)	15	(2,080)	(1,918)	8
Administrative expenses	(3,851)	(5,822)	(34)	(8,543)	(12,363)	(31)
Research expenses	(738)	(803)	(8)	(4,670)	(1,837)	154
Impairment/(write-back) of financial assets	(20)	–	100	(20)	–	100
Finance costs						
- Bank charges	(1)	(1)	0	(2)	(2)	0
- Loans from former shareholders	–	–	N.M	–	(38)	(100)
Profit before tax	4,792	1,457	229	313	850	(63)
Income taxation	–	–	N.M	–	–	N.M
Profit for the period, representing total comprehensive income for the period attributable to owners of the Company	4,792	1,457	229	313	850	(63)

N.M. - not meaningful

1(a)(ii) The following items (with appropriate breakdowns and explanations), if significant, must either be included in the income statement or in the notes to the income statement for the current financial period reported on and the corresponding period of the immediately preceding financial year.

Profit before tax is arrived at after charging/(crediting) the following:

	Group			Group		
	Unaudited	Unaudited	Change	Unaudited	Unaudited	Change
	3 months ended			6 months ended		
30/06/2019	30/06/2018	%	30/06/2019	30/06/2018	%	
	RMB'000	RMB'000		RMB'000	RMB'000	
Depreciation of property, plant and equipment	2,571	2,998	(14)	5,206	6,054	(14)
Depreciation of investment property	125	71	76	250	115	117
Amortisation of land use rights	91	91	0	182	182	0
Amortisation of intangible assets	20	77	(74)	40	159	(75)
Impairment/(write-back) of financial assets	20	(1,155)	N.M.	20	(1,155)	N.M.
Gain on disposal of property, plant and equipment	(173)	–	N.M.	(55)	(458)	(88)
Write-off of property, plant and equipment	28	2	(1,300)	28	2	(1,300)
Net foreign exchange (gain)/loss	(33)	(27)	22	15	(8)	N.M.
Write-back of after-sale expenses	–	(4)	(100)	–	–	N.M.
Write-back of provision on onerous contracts	(59)	–	N.M.	(59)	–	N.M.
Finance income	(499)	(952)	(48)	(1,093)	(1,273)	(14)
Finance costs	1	1	0	2	40	(95)
Performance share plan expenses	14	2	600	28	4	600

N.M. - not meaningful

ANCHUN INTERNATIONAL HOLDINGS LTD.
 UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 30 JUNE 2019

1(b)(i) Statement of financial position (for company and group), together with comparatives as at the end of the immediately preceding financial year.

	Group		Company	
	Unaudited 30/6/2019 RMB'000	Audited 31/12/2018 RMB'000	Unaudited 30/6/2019 RMB'000	Audited 31/12/2018 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	69,472	74,037	–	–
Intangible assets	145	185	–	–
Land use rights	13,162	13,344	–	–
Investment in a subsidiary	–	–	75,510	75,482
Investment property	2,182	2,432	–	–
Prepayments	22	24	–	–
Deferred tax asset	628	628	–	–
	85,611	90,650	75,510	75,482
Current assets				
Inventories	41,627	28,672	–	–
Trade and other receivables	37,280	28,420	35,821	35,846
Contract assets	65,646	62,856	–	–
Bills receivable	12,940	22,279	–	–
Prepayments	16,630	16,180	59	102
Investment	60,000	20,000	–	–
Cash and cash equivalents	57,127	114,518	17,909	19,086
	291,250	292,925	53,789	55,034
Total assets	376,861	383,575	129,299	130,516
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other payables	39,154	30,973	11,758	11,625
Contract liabilities	28,724	44,809	–	–
Other liabilities	17,386	16,478	1,103	836
Provisions	–	59	–	–
Income tax payable	6,560	6,560	–	–
	91,824	98,879	12,861	12,461
Net current assets	199,426	194,046	40,928	42,573
Non-current liability				
Deferred tax liabilities	100	100	–	–
	100	100	–	–
Total liabilities	91,924	98,979	12,861	12,461
Net assets	284,937	284,596	116,438	118,055
Equity attributable to owners of the Company				
Share capital	149,278	149,278	149,278	149,278
Employee benefit trust shares	(66)	(66)	(66)	(66)
Treasury shares	(538)	(538)	(538)	(538)
Other reserves	121,875	121,981	113	85
Accumulated profits/(losses)	14,388	13,941	(32,349)	(30,704)
Total equity	284,937	284,596	116,438	118,055
Total equity and liabilities	376,861	383,575	129,299	130,516

1(b)(ii) Aggregate amount of Group's borrowings and debt securities.

The Group has no outstanding borrowings and debt securities (31 December 2018: nil) as at 30 June 2019.

1(c) A statement of cash flows (for the Group), together with a comprehensive statement for the corresponding period of the immediately preceding financial year.

	Group Unaudited 3 months ended		Group Unaudited 6 months ended	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
Note	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities				
Profit before tax	4,792	1,457	313	850
<u>Adjustments for:</u>				
Depreciation of property, plant and equipment	2,571	2,998	5,206	6,054
Depreciation of investment property	125	71	250	115
Amortisation of intangible assets	20	77	40	159
Amortisation of land use rights	91	91	182	182
Gain on disposal of property, plant and equipment	(173)	–	(55)	(458)
Write-off of property, plant and equipment	28	2	28	2
Impairment/(write-back) of financial assets	21	(1,155)	21	(1,155)
Write-back of provision on onerous contracts	(59)	–	(59)	–
Write-back for after-sale services	–	(4)	–	–
Performance share plan expense	14	2	28	4
Net foreign exchange (gain)/loss	(33)	(27)	15	(8)
Finance costs	1	1	2	40
Finance income	(499)	(952)	(1,093)	(1,273)
Operating cash flows before changes in working capital	6,899	2561	4,878	4512
<u>Changes in working capital</u>				
Decrease/(increase) in:				
Inventories	1,959	(4,380)	(12,955)	(6,560)
Trade and other receivables	(1,217)	(7,510)	(8,880)	5,311
Contract assets	(5,209)	(193)	(2,790)	(8,338)
Bills receivable	2,960	11,037	9,339	11,112
Prepayments	1,537	(242)	(450)	(3,423)
(Decrease)/increase in:				
Trade and other payables	2,017	3,382	8,258	13
Contract liabilities	(19,125)	1,597	(16,085)	4,468
Other liabilities	5,115	715	908	(2,836)
Total changes in working capital	(11,963)	4,406	(22,655)	(253)
Cash flows (used in)/generated from operations	(5,065)	6,967	(17,778)	4,259
Interest received	499	952	1,093	1,273
Interest paid	(1)	(1)	(2)	(3)
Net cash (used in)/generated from operating activities	(4,567)	7,918	(16,687)	5,529

1(c) A statement of cash flows (for the Group), together with a comprehensive statement for the corresponding period of the immediately preceding financial year. (cont'd)

	Group Unaudited 3 months ended		Group Unaudited 6 months ended	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RMB'000	RMB'000	RMB'000	RMB'000
Investing activities				
Proceed from sale of property, plant and equipment	146	–	146	921
Purchase of Intangible assets - software	–	(22)	–	(142)
Purchase of property, plant and equipment	(430)	(249)	(835)	(420)
Purchase of investment at fair value through profit or loss managed by a fund manager	(15,000)	–	(40,000)	(75,000)
Net cash used in investing activities	(15,284)	(271)	(40,689)	(74,641)
Financing activity				
Repayment of loans from former shareholders of a subsidiary	–	–	–	(17,990)
Net cash used in financing activity	–	–	–	(17,990)
Net (decrease)/increase in cash and cash equivalents	(19,851)	7,647	(57,376)	(87,102)
Cash and cash equivalents at beginning of period	76,945	41,921	114,518	136,689
Effect of exchange rate changes on cash and cash equivalents	33	27	(15)	8
Cash and cash equivalents at end of period	57,127	49,595	57,127	49,595

Note A:

Purchase of property, plant and equipment

	Group Unaudited 3 months ended		Group Unaudited 6 months ended	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RMB'000	RMB'000	RMB'000	RMB'000
Current period additions to property, plant and equipment	482	112	760	189
Less: Payable to creditors for current period purchases	–	(26)	(119)	(41)
Prepayment made in prior period	(232)	–	(23)	(18)
Add: Payments for prior period purchase	180	–	196	104
Prepayments made in current period	–	163	21	186
Net cash outflow for purchase of property, plant and equipment	430	249	835	420

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Changes in Equity

Attributable to owners of the Company

	Share Capital	Employee benefit trust shares	Performance share plan reserve	Gain on reissuance of EBT shares	Treasury shares	Contribution from shareholder	Statutory reserve fund	Statutory reserve fund - safety production reserve	Merger reserve	Accumulated profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group Unaudited											
Balance at 1 January 2018	149,278	(66)	–	64	(222)	1,725	38,691	5,521	75,000	7,954	277,945
Loss for the period, representing total comprehensive income.	–	–	–	–	–	–	–	–	–	850	850
<u>Contributions by and distribution to owners</u>											
Grant of equity-settled performance shares to employees	–	–	4	–	–	–	–	–	–	–	4
<u>Others</u>											
Transfer to statutory reserve – safety production reserve	–	–	–	–	–	–	–	588	–	(588)	4
Balance at 30 June 2018	149,278	(66)	4	64	(222)	1,725	38,691	6,109	75,000	8,216	278,799
Group Unaudited											
Balance at 1 January 2019	149,278	(66)	21	64	(538)	1,725	39,230	5,941	75,000	13,941	284,596
Loss for the period, representing total comprehensive income	–	–	–	–	–	–	–	–	–	313	313
<u>Contributions by and distribution to owners</u>											
Grant of equity-settled performance shares to employees	–	–	28	–	–	–	–	–	–	–	28
<u>Others</u>											
Transfer to statutory reserve	–	–	–	–	–	–	–	(134)	–	134	–
Balance at 30 June 2019	149,278	(66)	49	64	(538)	1,725	39,230	5,807	75,000	14,388	284,937

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Changes in Equity (cont'd)

	Attributable to owners of the Company						Total equity
	Share Capital	Employee benefit trust shares	Performance share plan reserve	Gain on reissuance of EBT shares	Treasury shares	Accumulated losses	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Company Unaudited							
Balance at 1 January 2018	149,278	(66)	–	64	(222)	(27,972)	121,082
Loss for the period, representing total comprehensive loss for the year	–	–	–	–	–	(1,318)	(1,318)
<u>Contributions by and distribution to owners</u>							
Grant of equity-settled performance shares to employees	–	–	4	–	–	–	4
Balance at 30 June 2018	149,278	(66)	4	64	(222)	(29,290)	119,768
Company Unaudited							
Balance at 1 January 2019	149,278	(66)	21	64	(538)	(30,704)	118,055
Loss for the period, representing total comprehensive loss for the year	–	–	–	–	–	(1,645)	(1,645)
<u>Contributions by and distribution to owners</u>							
Grant of equity-settled performance shares to employees	–	–	28	–	–	–	28
Balance at 30 June 2019	149,278	(66)	49	64	(538)	(32,349)	116,438

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Ordinary shares

	Number of Shares	Amount RMB'000
Ordinary shares including employee benefit trust ("EBT") shares & treasury shares as at 30 June 2019 and 30 June 2018.	50,500,000	149,278

Convertibles

The Company did not have outstanding options, convertibles or subsidiary holdings as at 30 June 2019 and 30 June 2018.

EBT shares

The Company had 26,000 EBT shares, approximately 0.051% of the total number of issued shares, as at 30 June 2019 (vs. 26,000 shares as at 30 June 2018).

Of the aforesaid 26,000 EBT shares, there were no EBT shares remain available for allocation as at 30 June 2019. (vs. 9,000 EBT shares, approximately 0.018% of the total number of issued shares, remained for allocation as at 30 June 2018).

Treasury shares

The Company had 417,400 treasury shares (approximately 0.83% of the total number of issued shares) as at 30 June 2019 (30 June 2018: 160,000).

The Company had granted an award comprising 160,000 treasury shares to an eligible employee of our Group on 13 December 2018 and these shares will be transferred to the relevant employee upon the fulfilment of the 3 years' service condition of the award granted.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	As at 30.06.19	As at 31.12.18
Number of ordinary shares issued and fully paid	50,500,000	50,500,000
Treasury shares	(417,400)	(417,400)
EBT shares	(26,000) ⁽¹⁾	(26,000) ⁽¹⁾
Total number of ordinary shares issued and fully paid (excluding Treasury shares and EBT shares)	50,056,600	50,056,600

Notes:

- (1) The Company granted a total of 26,000 EBT shares (comprising 17,000 EBT shares and 9,000 EBT shares) to eligible employees of the Group on 29 December 2017 and 13 September 2018, respectively. The employee will become beneficially interested in their respective EBT shares after fulfilling the three years' service condition under the grant of the awards

1(d)(iv) A statement showing all sales, transfer, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable. There were no sales, transfer, disposal, cancellation and/or use of treasury shares as at end of the current financial period reported on.

1(d)(v) A statement showing all sales, transfer, disposal, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

Not applicable. There were no sales, transfers, disposal, cancellation and/or use of subsidiary holdings as at the end of the current period reported on.

2) Whether the figures have been audited, or reviewed and in accordance with which standard or practices.

The figures have not been audited or reviewed by the Company's auditors.

3) Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)

Not applicable.

4) Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied

Except for the adoption of the FRSs and Amendments to FRSs applicable for the financial period beginning on or after 1 January 2019, the same accounting policies and methods of computation have been applied. A summary of the effect on the financial performance or position of the Group and the Company on adoption of FRSs beginning on or after 1 January 2019 is disclosed in Note 5 below.

5) If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

The Group has not adopted any other mandatory standards, amendments and interpretations to existing standards that have been published but are only effective for the Group's accounting periods beginning or after 1 January 2019 except for SFRS(I) 16 Leases as disclosed below.

SFRS(I) 16 Leases ("SFRS(I) 16")

The Group has adopted SFRS(I) 16 on its effective date, being 1 January 2019. Under SFRS(I) 16, Right-of-use assets and lease liabilities are recognised for its leases previously classified as operating leases, with a corresponding adjustment in the opening retained earnings as of 1 January 2019.

On the adoption of SFRS(I) 16, the Group chose on a lease-by-lease basis to measure the right-of-use asset at its carrying amount as if SFRS(I) 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of 1 January 2019.

In addition, the Group elected the following practical expedients:

- not to reassess whether a contract is, or contains a lease at the date of initial application and to apply SFRS(I) 16 to all contracts that were previously identified as leases.
- to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months as of 1 January 2019.

On adoption of SFRS(I) 16, the Group has considered right-of-use assets and lease liabilities for its leases previously classified as operating leases, with a corresponding adjustment in the opening retained earnings as of 1 January 2019. The SFRS(I) 16 have no major impact to the Group and Company.

6) **Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends**

	Group			
	3 months ended		6 months ended	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
Profit net of tax attributable to owners of the Company (RMB '000)	4,792	1,457	313	850
Weighted average number of ordinary shares (excluding EBT shares) ('000) in issue	50,057	50,314	50,057	50,314
Weighted average number of ordinary shares (including EBT shares) ('000) in issue	50,243	50,331	50,243	50,331
Basic earnings per share (RMB cents)	9.57	2.90	0.63	1.69
Diluted earnings per share (RMB cents)	9.54	2.89	0.62	1.69

Basic earnings per share for the 6 months ended 30 June 2019 and 30 June 2018 are computed by dividing the profit net of tax attributable to owners of the Company by the weighted average number of ordinary shares excluding EBT shares.

Diluted earnings per share for the 6 months ended 30 June 2019 and 30 June 2018 is computed by dividing the profit net of tax attributable to owners of the Company by the weighted average number of ordinary shares including EBT shares. The EBT shares have a dilutive effect on earnings per share.

7) **Net asset value (for the issuer and group) per ordinary share based on issued share capital excluding treasury shares of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year.**

	Group		Company	
	30/6/2019	31/12/2018	30/6/2019	31/12/2018
Net asset value per share (RMB per share)	5.69	5.69	2.33	2.36

Net asset value per ordinary share as at 30 June 2019 and as at 31 December 2018 were calculated based on the existing number of shares in issue excluding EBT shares of 50,056,600 ordinary shares as at 30 June 2019 and 31 December 2018.

- 8) **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

A) Income Statements

Revenue

1H2019 vs 1H2018

Revenue increased by RMB25.4 million or 52% from RMB48.7 million in 1H2018 to RMB74.1 million in 1H2019. The increase was mainly due to the increase of revenue from CSC business, engineering services and increase of revenue from catalyst business, further described as follows:

Revenue from our Catalyst Business

Revenue from our Catalyst Business increased by RMB2.4 million or 47% from RMB5.1 million in 1H2018 to RMB7.5 million in 1H2019 mainly due to more orders received and completed for catalyst processing business in 1H2019.

Revenue from our Engineering Services

Revenue from our Engineering Services increased by RMB0.08 million or 3.7% from RMB2.15 million in 1H2018 to RMB2.23 million in 1H2019 mainly due to higher percentage of completion for service contracts in 1H2019.

Revenue from our CSC Business

Revenue from our CSC Business increased by RMB22.9 million or 55% from RMB41.4 million in 1H2018 to RMB64.3 million in 1H2019. The increase was due to higher percentage of completion for CSC contracts and increase in number of contracts in progress during the period of 1H2019.

2Q2019 vs 2Q2018

The Group's revenue increased by RMB21.6 million or 69% from RMB31.3 million in 2Q2018 to RMB52.9 million in 2Q2019. This was mainly due to more contracts in progress and higher percentage of completion for CSC Business of RMB20.5 million and catalyst Business of RMB1.9 million respectively partially offset by the decrease of revenue from engineering services of RMB0.8 million in 2Q2019 compared to 2Q2018.

Gross profit and gross profit margin

1H2019 vs 1H2018

Our overall gross profit increased by RMB4.0 million or 47% from RMB8.6 million in 1H2018 to RMB12.6 million in 1H2019 and our gross profit margin decreased slightly from 18% in 1H2018 to 17% in 1H2019.

The increase in our overall gross profit was mainly due to the following:

- 1) The gross profit of our Catalyst business increased by RMB0.5 million from RMB2.5 million in 1H2018 to RMB3.0 million in 1H2019 mainly due to increase of revenue from catalyst processing business. The gross profit margin decreased by 10% from 49% in 1H2018 to 39% in 1H2019, mainly attributable to decrease of revenue from hydrocarbon catalysts which contributed higher gross margin in 1H2019.
- 2) Gross profit of our CSC business increased by RMB4.1 million from RMB4.9 million in 1H2018 to RMB9.0 million in 1H2019 mainly attributable to more contracts in progress and higher percentage of completion for CSC contracts during the period of 1H2019. The gross profit margin increased by 2% from 12% in 1H2018 to 14% in 1H2019 due to increase of two contracts from a customer, high pressure vessel and propionaldehyde reactor which contributed higher gross margin.

A) Income Statements (cont'd)

Gross profit and gross profit margin (cont'd)

- 3) The gross profit of our engineering design decreased by RMB0.6 million from RMB1.2 million in 1H2018 to RMB0.6 million in 1H2019. The gross profit margin decreased by 29% from 57% in 1H2018 to 28% in 1H2019 mainly attributable to decrease of revenue from environmental protection engineering services which contributed higher gross margin.

2Q2019 vs 2Q2018

Our overall gross profit increased by RMB3.9 million or 80% from RMB4.9 million in 2Q2018 to RMB8.8 million in 2Q2019 and our gross profit margin increased slightly from 15% in 2Q2018 to 17% in 2Q2019.

The fluctuation in our overall gross profit was mainly due to the following:

- 1) Gross profit of Catalyst business increased by RMB0.3 million from RMB2.2 million in 2Q2018 to RMB2.5 million in 2Q2019. The gross profit margin decreased by 12% from 55% in 2Q2018 to 43% in 2Q2019 mainly attributable to decrease of revenue from hydrocarbon catalysts in 2Q2019 which contributed higher gross margin.
- 2) Gross profit of our CSC business increased by RMB4.2 million from RMB2.0 million in 2Q2018 to RMB6.2 million in 2Q2019. This was mainly attributable to higher percentage of completion for CSC contracts during the period of 2Q2019. The gross profit margin increased by 5% from 8% in 2Q2018 to 13% in 2Q2019 due to increase of two contracts from a customer, high pressure vessel and propionaldehyde reactor which contributed higher gross margin.
- 3) Gross profit of our engineering design decreased by RMB0.6 million from RMB0.7 million in 2Q2018 to RMB0.1 million in 2Q2019. The gross profit margin decreased by 36% from 60% in 2Q2018 to 24% in 2Q2019 mainly attributable to decrease of revenue from the environmental protection engineering services completed in the current quarter which contributed higher gross margin.

Finance and other income

1H2019 vs 1H2018

Finance and other income decreased by RMB4.2 million or 58% from RMB7.3 million in 1H2018 to RMB3.1 million in 1H2019. The decrease was mainly due to the decrease of government grants of RMB1.2 million and sales of scrap metal of RMB1.8 million, sales of accessories of RMB0.5 million, gain on disposal of PPE of RMB0.4 million and financial income of RMB0.2 million.

2Q2019 vs 2Q2018

Finance and other income decreased by RMB1.3 million or 42% from RMB3.1 million in 2Q2018 to RMB1.8 million in 2Q2019. The decrease was mainly due to the decrease of sales of accessories of RMB0.5 million and property rental income of RMB0.6 million, sales of scrap metal of RMB0.2 million and financial income of RMB0.5 million offset by the increase of government grants of RMB0.3 million and gain on disposal of PPE of RMB0.2 million.

Marketing and distribution expenses

1H2019 vs 1H2018

Marketing and distribution expenses increased RMB0.16 million or 8% from RMB1.92 million in 1H2018 to RMB2.08 million in 1H2019. The increase was mainly attributable to increase of travelling expenses of RMB0.1 million.

2Q2018 vs 2Q2019

Marketing and distribution expenses increased by RMB0.2 million or 18% from RMB1.1 million in 2Q2018 to RMB1.3 million in 2Q2019. The increase was mainly attributable to increase of travelling expenses of RMB0.1 million and increase of bid service charges of RMB0.1 million.

A) Income Statements (cont'd)

Administrative expenses

1H2019 vs 1H2018

Administrative expenses decreased by RMB3.8 million or 31% from RMB12.3 million in 1H2018 to RMB8.5 million in 1H2019. The decrease was partly due to lower unallocated manufacturing overheads of RMB1.1 million charged to profit or loss under administrative expenses .

Item by nature	1H2019	1H2018	1H2019 vs.1H2018 (Change)		Comments
	RMB'000	RMB'000	RMB'000	%	
Unallocated manufacturing overheads allocated in administrative expenses	708	2,729	(2,021)	(74)	The decrease is due to higher production volumes and lower unallocated manufacturing overhead recorded under administrative expenses in 1H2019 over 1H2018.
Salaries, bonuses and fees	2,689	3,241	(552)	(17)	Include salaries of executive directors and heads of department deployed in administrative functions. Decrease due to higher provision of bonuses in FY2018.
Professional fees	672	1,582	(910)	(58)	Decrease due to the renewal fees for engineering design qualifications.
Factory repair and maintenance	62	688	(626)	(91)	Decrease of repair and maintenance cost incurred for factory.
Recruiting fees	121	13	108	831	Increase due to more network recruitment activities for engineering design staff.
Other expenses	4,291	4,110	181	4	Other expenses are an aggregation of expenses of less than RMB0.1 million each. It includes Amortisation, Depreciation etc.
Total	8,543	12,363	(3,820)	(31)	

N.M. - not meaningful

A) Income Statements (cont'd)

Administrative expenses (cont'd)

2Q2019 vs 2Q2018

Administrative expenses decreased by RMB2.0 million or 34% from RMB5.8million in 2Q2018 to RMB3.8 million in 2Q2019.

Item by nature	2Q2019	2Q2018	2Q2019vs.2Q2018 (Change)		Comments
	RMB'000	RMB'000	RMB'000	%	
Unallocated manufacturing overheads allocated in administrative expenses	144	895	(751)	(84)	The decrease is due to higher production volumes and lower unallocated manufacturing overhead recorded under administrative expenses in 2Q2019 over 2Q2018.
Factory repair and maintenance	29	580	(551)	(95)	Repair and maintenance cost incurred for property rental.
Staff welfare expenses	273	544	(271)	(50)	Company distribution of rice to its employees to boost morale due to more orders received and tight delivery schedules in 2Q2018.
Professional fees	334	534	(200)	(37)	Decrease due to the renewal fees for engineering design qualifications.
Other expenses	3,072	3,269	(197)	(6)	Other expenses are an aggregation of expenses of less than RMB0.1million each. It includes maintenance expenses, litigation costs, etc.
Total	3,852	5,822	(1,970)	(34)	

N.M. - not meaningful

Research expenses

1H2019 vs 1H2018

Research expenses increased by RMB2.8 million or 154% from RMB1.8 million in 1H2018 to RMB4.6 million in 1H2019 mainly attributable to higher expenses incurred for a new waste heat boiler, propionaldehyde reactor, a new isothermal shift reactor and pressure drop test of gas distribution of catalyst basket in reactor improvement efforts of RMB 3.8 million, partially offset by lower expenses incurred for the general design and catalyst process improvement efforts of RMB1.0 million in 1H2019.

2Q2019 vs 2Q2018

Research expenses decreased by RMB0.1 million or 13% from RMB0.8 million in 2Q2018 to RMB0.7 million in 2Q2019 mainly attributable to less research and development expenses incurred in 2Q2019.

A) Income Statements (cont'd)

Finance costs

1H2019 vs 1H2018

Finance costs decreased by RMB0.03 million or 97% from RMB0.04 million in 1H2018 to RMB0.01 million in 1H2019. The decrease was mainly due to the decrease in interest expenses as a result of the full repayment of the loan from the former shareholders of our subsidiary in 1Q2018.

2Q2019 vs 2Q2018

Finance costs remained constant in 2Q2019 of RMB0.1 million which is the same as the corresponding period in 2Q2018.

Income tax expenses

1H2019 vs 1H2018

There was no income tax expense in 1H2019 as the company has utilized its tax losses brought-forward from prior years.

2Q2019 vs 2Q2018

There was no income tax expense in 2Q2019 as the company has utilized its tax losses brought-forward from prior years.

Net profit attributable to owners of the Company

1H2019 vs 1H2018

The net profit attributable to owners of the Company decreased by RMB0.54 million from a net profit of RMB0.85 million in 1H2018 to net profit of RMB0.31 million in 1H2019 as explained above.

2Q2019 vs 2Q2017

The net profit attributable to owners of the Company has increased by RMB3.3 million from a net profit of RMB1.4 million in 2Q2018 to a net profit of RMB4.7 million in 2Q2019 as explained above.

B) Balance Sheet Statements

Non-current assets

Non-current assets decreased by RMB5.0 million or 6.3% from RMB90.6 million as at 31 December 2018 to RMB85.6 million as at 30 June 2019. Non-current assets comprised of property, plant and equipment, investment property, intangible assets, land use rights, deferred tax assets and prepayments for property, plant and equipment.

Property, plant and equipment decreased by RMB4.6 million or 6.2% from RMB74.0 million as at 31 December 2018 to RMB69.4 million as at 30 June 2019, which is mainly due to depreciation charged in 1H2019.

Current assets

Current assets decreased by RMB1.6 million or 0.5% from RMB292.9 million as at 31 December 2018 to RMB291.3 million as at 30 June 2019. The decrease was mainly due to the following:

- a) The increase in inventories of RMB13.0 million was mainly due to raw materials purchased for CSC business contract orders.
- b) The increase in trade and other receivables of RMB8.8 million is due to increase of contractual milestone billings.

B) Balance Sheet Statements (cont'd)

Current assets (cont'd)

- c) The increase in contract assets of RMB2.8 million is due to increased number of on-going contracts during the year and a higher percentage of completion on these contracts, for which contractual milestone billings have not been reached.
- d) The decrease in bills receivable of RMB9.3 million is due to settlement of outstanding bills receivable.
- e) The increase in prepayments of RMB0.5 million was mainly due to the purchases of raw materials for new sale contracts.
- f) The decrease in cash and cash equivalents of RMB57.4 million was due to purchase of investment at fair value through profit or loss managed by a fund manager of RMB40 million, purchase of property, plant and equipment of RMB0.7 million and decrease of cash in flow from operating activities of RMB16.7 million.
- g) The increase in investment of RMB40 million is due to purchase of investment at fair value through profit or loss managed by a fund manager,

The breakdown and aging of items of trade and other receivables are as follows:

Item by nature	30/6/2019 RMB'000	< 6 months RMB'000	6-12 months RMB'000	1-2years RMB'000	>2years RMB'000
Trade Receivables					
Receivables from sales	63,006	19,923	11,401	8,270	23,412
Less: Impairment losses on trade receivables, net	(27,948)	(1,224)	(1,938)	(3,235)	(21,551)
Sub-total	35,058	18,699	9,463	5,035	1,861
Other Receivables					
A. Operation cash advances	244	244	-	-	-
B. Bid bonds	1,938	1,938	-	-	-
C. Rental deposit	29	-	-	29	-
D. GST receivables	11	11	-	-	-
Total	37,280	20,892	9,463	5,064	1,861

The breakdown and aging of items of contract assets are as follows:

Item by nature	30/06/2019 RMB'000	< 6 months RMB'000	6-12 months RMB'000	1-2years RMB'000	>2years RMB'000
Contract Assets					
Contract Assets	72,620	19,601	44,781	1,264	6,974
Less: Impairment losses contract assets, net	(6,974)	-	-	-	(6,974)
Total	65,646	19,601	44,781	1,264	-

B) Balance Sheet Statements (cont'd)

Current liabilities

Current liabilities decreased by RMB7.1 million or 7% from RMB98.9 million as at 31 December 2018 to RMB91.8 million as at 30 June 2019.

- a) The decrease in contract liabilities of RMB16.1 million due to contract liabilities are recognised as revenue as the Group performs under the contract according to the Group's revenue recognition policy.
- b) The increase in trade and other payables of RMB8.1 million was due to the increase of purchase of raw materials for new sale contracts.
- c) The increase in other liabilities of RMB0.9 million were mainly due to increase of 5.7 million in payable items to transportation companies and CSC business outsourcing sub-contractors due to settlement timing differences and decrease of accrued salaries and bonuses of 4.8 million due to subsequent payments to the employee in 1Q2019.

C) Cash Flow Statements

1H2019

Cash and cash equivalents decreased by RMB57.4 million in 1H2019, which was mainly attributed to cash used in operating activities of RMB16.7 million and net cash used in investing activities of RMB40.7 million.

2Q2019

Cash and cash equivalents decreased by RMB19.8 million in 2Q2019, which was mainly attributed to cash used in operating activities of RMB4.6 million and net cash used in investing activities of RMB15.2 million.

- 9) **Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

The Company did not make any forecast and prospect statement in respect of its results for 30 June 2019.

- 10) **A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

The products and services the Group provides are mostly related to capital intensive engineering projects in China. The macro-economic environment in China, particularly government policies in relation to the issue of credit and provision of utility subsidies to the industry, have a large impact on the Group's customers buying and investing decisions. This coupled with nitrogen fertilizer and urea prices remaining low, the Group expects the next 12 months to continue to be challenging for the Nitrogen Fertilizer Industry and the majority of basic chemical producers in PRC.

The Group has continued its efforts to diversify into non-fertiliser industries, which has resulted in revenue of RMB28.8 million for the 6M2019 representing 39% (RMB8.08 million for 6M2018 representing 17%) of total revenue.

The Group will continue to remain vigilant over its costs structure and continue its research efforts to enhance and improve its portfolio of patented products and further build its technical competency so as to be more competitive in the market and be better positioned to take advantage of opportunities when they arise.

The Group's order book as of 30 June 2019 was approximately RMB121 million (31 March 2019: RMB130.8 million) out of which of RMB37.9 million is from non-fertiliser industries. We are cautiously optimistic that we will be able to make further inroads in this direction.

11) Dividend

(a) Current financial period reported on

The Company does not recommend any dividend for the financial period ended 30 June 2019.

(b) Corresponding period of the immediately preceding financial year

The Company did not recommend or declare any dividend for the financial period ended 30 June 2018.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12) If no dividend has been declared (recommended), a statement to that effect and the reason(s) for the decision

No dividend has been declared or recommended for the financial period ended 30 June 2019 as the Company is in a net loss for 2Q2019 and accumulated loss position.

13) If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group has not obtained a general mandate from shareholders for Interested Person Transactions.

14) Update on usage of IPO proceeds

As at 30 June 2019, the net proceeds from the Company's initial public offering have been utilized as follows:

Usage of IPO Proceeds	Amount allocated RMB'000	Amount utilized RMB'000	Balance RMB'000
(A) Expand our production facilities and capacities	95,936	18,465	77,471
(B) Enhance our R&D capabilities and widen our range of innovative and cost-effective solutions	15,479	14,792	687
(C) Working capital purposes	22,074	22,074	-
Total	133,489	55,331	78,158

The amount of RMB15.5 million utilized for R&D capabilities, innovative and cost-effective solutions are mainly attributable to works on a sulfur removal reactor, a new waste heat boiler and a new type of isothermal methanol reactor, propionaldehyde reactor and shift catalyst production research.

The breakdown of working capital utilization is as follows:

Usage of IPO proceeds for working capital	Amount Utilized (RMB'000)
For CO shift catalyst unit and technology implementations	15,868
For expanding sales and marketing capabilities and initiatives	6,206
Total	22,074

15) Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1)

The Company has obtained undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).

CONFIRMATION BY THE BOARD

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited second quarter and half year financial results for the period ended 30 June 2019 to be false or misleading in any material respects.

By Order of the Board

Xie Ming
Executive Chairman
13 August 2019