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**GREEN FUTURE FOOD HYDROCOLLOID MARINE
SCIENCE COMPANY LIMITED**

綠新親水膠體海洋科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1084)

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

The Board is pleased to announce the unaudited condensed consolidated interim financial results for the 1H2023 as follows:

- Revenue amounted to RMB582.9 million, decreased by 9.5% as compared to RMB644.2 million for the 1H2022.
- Gross profit amounted to RMB106.1 million and the gross profit margin was 18.2%, decreased by RMB89.3 million and 12.1 percentage points, as compared to RMB195.4 million and 30.3%, respectively, for the 1H2022.
- Profit for the 1H2023 amounted to RMB25.1 million and the net profit margin was 4.3%, decreased by RMB79.4 million and 11.9 percentage points, as compared to RMB104.5 million and 16.2%, respectively, for the 1H2022.

The Board does not recommend the payment of interim dividend for the 1H2023.

The board (the “**Board**”) of directors (the “**Directors**”) of Green Future Food Hydrocolloid Marine Science Company Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim financial results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2023 (the “**1H2023**”), together with the comparative figures for the six months ended 30 June 2022 (the “**1H2022**”), as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

(All amounts expressed in RMB thousands unless otherwise stated)

	Note	Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
			(Restated)
Revenue	7	582,876	644,157
Cost of sales	7	(476,733)	(448,736)
Gross profit		106,143	195,421
Other income		2,473	4,067
Other losses - net		(3,549)	(354)
Net impairment gains on financial assets		1,759	505
Selling and distribution expenses		(8,453)	(6,403)
Administrative expenses		(45,435)	(44,175)
Operating profit		52,938	149,061
Finance income		304	47
Finance costs		(19,738)	(11,282)
Finance costs – net		(19,434)	(11,235)
Profit before income tax		33,504	137,826
Income tax expense	9	(8,388)	(33,366)
Profit for the period		25,116	104,460
Profit for the period attributable to:			
Owners of the Company		25,008	104,408
Non-controlling interests		108	52
		25,116	104,460
Earnings per share for profit attributable to owners of the Company			
Basic earnings per share (RMB)	10	0.030	0.127
Diluted earnings per share (RMB)	10	0.030	0.126

The notes on pages 10 to 37 are an integral part of this condensed consolidated interim financial information.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

For the six months ended 30 June 2023

(All amounts expressed in RMB thousands unless otherwise stated)

	Six months ended 30 June	
	<u>2023</u>	<u>2022</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Profit for the period	25,116	104,460
Other comprehensive loss		
Item that may be reclassified subsequently to profit or loss		
– Currency translation differences	<u>(3,613)</u>	<u>(6,575)</u>
Total comprehensive income for the period	<u>21,503</u>	<u>97,885</u>
Total comprehensive income for the period		
attributable to:		
Owners of the Company	20,846	97,626
Non-controlling interests	<u>657</u>	<u>259</u>
	<u>21,503</u>	<u>97,885</u>

The notes on pages 10 to 37 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2023

(All amounts expressed in RMB thousands unless otherwise stated)

		As at 30 June 2023	As at 31 December 2022	As at 1 January 2022
Note	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Restated)	(Restated)	
Assets				
Non-current assets				
Land use rights	12	54,946	54,873	55,936
Property, plant and equipment	12	391,813	401,428	412,184
Intangible assets	12	68,779	67,872	72,364
Prepayments for non-current assets		2,058	1,522	1,912
Deferred income tax assets		13,995	12,021	8,553
		531,591	537,716	550,949
Current assets				
Inventories		1,069,510	906,209	562,064
Trade and other receivables	14	162,854	208,340	162,598
Restricted cash		8,287	1,067	—
Financial assets at fair value through profit or loss		—	—	4,521
Cash and bank balances	13	46,620	37,675	109,421
		1,287,271	1,153,291	838,604
Total assets		1,818,862	1,691,007	1,389,553
Equity				
Equity attributable to owners of the Company				
Share capital	15	7,485	7,444	7,406
Other reserves		265,769	261,617	284,470
Shares held for the share award scheme		(9,832)	(10,594)	(10,594)
Retained earnings		608,119	586,177	407,117
		871,541	844,644	688,399
Non-controlling interests		8,223	7,566	16,262
Total equity		879,764	852,210	704,661

		As at 30 June 2023	As at 31 December 2022	As at 1 January 2022
	Note	RMB'000 (Unaudited)	RMB'000 (Restated)	RMB'000 (Restated)
Liabilities				
Non-current liabilities				
Bank borrowings	18	83,557	88,615	77,038
Lease liabilities	18	2,087	2,850	4,734
Deferred income		20,975	19,875	23,023
Deferred income tax liabilities		4,861	4,485	5,127
		111,480	115,825	109,922
Current liabilities				
Trade and other payables	17	227,610	207,838	145,900
Bank borrowings	18	590,362	491,269	408,925
Lease liabilities	18	1,595	1,605	1,890
Current income tax liabilities		8,051	22,260	18,255
		827,618	722,972	574,970
Total liabilities		939,098	838,797	684,892
Total equity and liabilities		1,818,862	1,691,007	1,389,553

The notes on pages 10 to 37 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

(All amounts expressed in RMB thousands unless otherwise stated)

		Equity attributable to owners of the Company							
		Shares held for the Share				Non-	Total		
Note	Share capital	Other reserves	Award Scheme	Retained earnings	Total	controlling interests	equity		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
(Unaudited)									
	Balance at 1 January 2023	7,444	261,617	(10,594)	586,177	844,644	7,566	852,210	
Comprehensive income									
	Profit for the period	—	—	—	25,008	25,008	108	25,116	
	Other comprehensive income								
	– Currency translation differences	—	(4,162)	—	—	(4,162)	549	(3,613)	
	Total comprehensive income	—	(4,162)	—	25,008	20,846	657	21,503	
Transactions with owners									
	Equity-settled share-based payment	16	—	3,801	—	—	3,801	—	3,801
	Shares issued due to options								
	exercised during the period	15	41	—	—	—	41	—	41
	Capital contribution	—	1,447	—	—	1,447	—	1,447	
	Shares exercised from Share								
	Award Scheme	—	—	762	—	762	—	762	
	Profit appropriation to								
	statutory reserves	—	3,066	—	(3,066)	—	—	—	
	Total transactions with owners	41	8,314	762	(3,066)	6,051	—	6,051	
	Balance at 30 June 2023	7,485	265,769	(9,832)	608,119	871,541	8,223	879,764	

		Equity attributable to owners of the Company							
		Shares held for the Share				Non-	Total		
Note	Share capital	Other reserves	Award Scheme	Retained earnings	Total	controlling interests	equity		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)		
(Unaudited)									
	Balance at 1 January 2022	7,406	284,470	(10,594)	407,117	688,399	16,262	704,661	
Comprehensive income									
	Profit for the period	—	—	—	104,408	104,408	52	104,460	
	Other comprehensive income								
	– Currency translation differences	—	(6,782)	—	—	(6,782)	207	(6,575)	
	Total comprehensive income	—	(6,782)	—	104,408	97,626	259	97,885	
Transactions with owners									
	Equity-settled share-based payment	16	—	881	—	—	881	—	881
	Shares issued due to options								
	exercised during the period	15	38	—	—	—	38	—	38
	Transaction with								
	non-controlling interests	—	(1,425)	—	—	(1,425)	—	(1,425)	
	Disposal of a subsidiary	—	—	—	—	—	(9,677)	(9,677)	
	Profit appropriation to								
	statutory reserves	—	10,789	—	(10,789)	—	—	—	
	Total transactions with owners	38	10,245	—	(10,789)	(506)	(9,677)	(10,183)	
	Balance at 30 June 2022	<u>7,444</u>	<u>287,933</u>	<u>(10,594)</u>	<u>500,736</u>	<u>785,519</u>	<u>6,844</u>	<u>792,363</u>	

The notes on pages 10 to 37 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

(All amounts expressed in RMB thousands unless otherwise stated)

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Cash flows from operating activities		
Cash used in operations	(21,780)	(14,674)
Income tax paid	(24,967)	(22,310)
Net cash used in operating activities	(46,747)	(36,984)
Cash flows from investing activities		
Proceeds from government grants	2,700	—
Proceeds from disposal of property, plant and equipment	6	17
Purchases of property, plant and equipment	(7,624)	(22,751)
Interest received	304	47
Purchases of financial assets at fair value through profit or loss	—	(15,704)
Disposal of a subsidiary	—	(15,165)
Purchases of intangible assets	—	(193)
Proceeds from sale of financial assets at fair value through profit or loss	—	20,418
Net cash used in investing activities	(4,614)	(33,331)

	Six months ended 30 June	
	<u>2023</u>	<u>2022</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Cash flows from financing activities		
Proceeds from borrowings	469,305	380,638
Proceeds of share issued due to options exercised during the period	41	38
Restricted cash pledged for notes payable	(7,219)	(3,023)
Repayments of borrowings	(384,993)	(335,693)
Interest paid	(17,805)	(11,522)
Settlements of lease liabilities	(793)	(912)
Transaction with non-controlling interest	—	(1,372)
	<u>58,536</u>	<u>28,154</u>
Net cash generated from financing activities	58,536	28,154
Net increase/(decrease) in cash and cash equivalents	7,175	(42,161)
Cash and cash equivalents at beginning of period	37,675	109,421
Effect of foreign exchange rates changes	1,770	3,009
	<u>46,620</u>	<u>70,269</u>
Cash and cash equivalents at end of period	46,620	70,269

The notes on pages 10 to 37 are an integral part of this condensed consolidated interim financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

(All amounts expressed in RMB thousands unless otherwise stated)

1 General information of the Group

Green Future Food Hydrocolloid Marine Science Company Limited (the “Company”) was incorporated on 3 July 2015 in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are in the business of manufacturing and sales of food manufacturing hydrocolloid products including carrageenan products, agar-agar products, blended products and konjac products in the People’s Republic of China (the “PRC”) and overseas.

The ultimate controlling parties of the Group are Mr. Chan Kam Chung, Mr. Chan Shui Yip, Mr. Guo Songsen, Mr. Guo Dongxu, Mr. Guo Yuansuo and Mr. Guo Donghuang who act in concert under a contractual agreement (the “Controlling Shareholders”).

The Company’s shares have been listed on The Stock Exchange of Hong Kong Limited since 17 October 2019.

This condensed consolidated interim financial information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

This condensed consolidated interim financial information has been approved for issue by the board of directors of the Company on 30 August 2023.

This condensed consolidated interim financial information has been reviewed, not audited.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting”. The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual consolidated financial statements. Accordingly, it should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), except for the adoption of the new and amended standards as disclosed in note 4 below.

3 Change of presentation currency

The Company’s functional currency is RMB. The presentation currency of the Group’s consolidated financial statements in the prior financial year was Hong Kong dollars (“HK\$”).

The Group has changed its presentation currency from HK\$ to RMB for the preparation of the Group’s consolidated financial statements since 1 January 2023. Having considered the principal activities of the Group such as production and sales are mainly conducted in the Peoples’ Republic of China (“PRC”) and the functional currency of subsidiaries with operation in the PRC are denominated in RMB, the directors of the Company consider that the change would result in a more appropriate presentation of the Group’s transactions in the financial statements. The Group has applied the change in presentation currency retrospectively and the comparative figures have been translated from HK\$ to RMB, while the functional currencies of the Company and its subsidiaries remain unchanged.

For the purpose of presenting the Group’s consolidated financial statements in RMB, the assets and liabilities for the consolidated balance sheet are translated into RMB at the closing rate at the end of the reporting period. Items in the consolidated statement of comprehensive income and the consolidated statement of cash flows are translated at the average exchange rates for the financial period. The share capital and reserves are translated at the exchange rate at the date of transaction.

4 Significant accounting policies

The principal accounting policies applied in the preparation of this condensed consolidated interim financial information are consistent with those of the annual consolidated financial statements for the year ended 31 December 2022 and the corresponding interim financial period, except for the adoption of new and amended standards as set out below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(i) *New and amended standards adopted by the Group*

A number of amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Standard and amendments	Effective for accounting periods beginning on or after
HKFRS 17 Insurance Contracts	1 January 2023
HKAS 8 (Amendments) - Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments) - Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments) - Disclosure of Accounting Policies	1 January 2023

4 Significant accounting policies (continued)

(ii) *New and amended standards not yet effective*

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2023 and have not been early adopted by the Group:

Standard and amendments	Effective for accounting periods beginning on or after
HKAS 1 (Amendments) - Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments) - Non-current liabilities with covenants	1 January 2024
HKFRS 16 (Amendments) - Lease liability in sale and leaseback	1 January 2024
HK Int 5 (Revised) - Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
HKFRS 10 and HKAS 28 (Amendments) - Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is assessing the full impact of the new standard, new interpretations and amendments to standards and interpretations.

5 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2022.

6 Financial risk management

6.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

This condensed consolidated interim financial information does not include all financial risk management 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 2022.

There have been no changes in the risk management policies since last year end.

(a) Liquidity risk

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Less than</u> <u>1 year</u> <u>RMB'000</u>	<u>Between 1</u> <u>and 2 years</u> <u>RMB'000</u>	<u>Between 2</u> <u>and 5 years</u> <u>RMB'000</u>	<u>Over 5 years</u> <u>RMB'000</u>	<u>Total</u> <u>RMB'000</u>
At 30 June 2023					
(Unaudited)					
Bank borrowings	590,362	69,108	14,449	—	673,919
Interest payable on borrowings	15,503	3,143	1,579	—	20,225
Lease liabilities	1,871	901	1,372	—	4,144
Trade and other payables (excluding non-financial liabilities)	201,001	—	—	—	201,001
	<u>808,737</u>	<u>73,152</u>	<u>17,400</u>	<u>—</u>	<u>899,289</u>

6 Financial risk management (continued)

6.1 Financial risk factors (continued)

(a) Liquidity risk (continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
At 31 December 2022					
Bank borrowings	491,269	70,941	17,674	—	579,884
Interest payable on borrowings	19,933	4,045	1,064	—	25,042
Lease liabilities	1,813	1,303	1,769	—	4,885
Trade and other payables (excluding non-financial liabilities)	171,291	—	—	—	171,291
	<u>684,306</u>	<u>76,289</u>	<u>20,507</u>	<u>—</u>	<u>781,102</u>

6.2 Fair value estimation of financial assets and liabilities measured at amortised cost

The carrying amounts of the Group's current financial assets (including cash and bank balances, trade and other receivables) and current financial liabilities (including trade and other payables, bank borrowings and lease liabilities) approximated their fair values as at the balance sheet date due to their short maturities.

7 Revenue and segment information

The Company's executive directors, the chief executive officer, the chief financial officer and the manager for corporate planning are regarded as the Group's chief operating decision maker. The chief operating decision maker examines the Group's performance from a product perspective and has identified five operating segments of its business as follows:

- (i) Manufacturing and sales of agar-agar;
- (ii) Manufacturing and sales of carrageenan;
- (iii) Manufacturing and sales of konjac products;
- (iv) Manufacturing and sales of blended products; and
- (v) Others, such as trading of milk powder and other operations.

The amounts provided to the chief operating decision maker with respect to total assets, total liabilities and capital expenditure are measured in a manner consistent with that of consolidated financial statements. The chief operating decision maker reviews the total assets, total liabilities and capital expenditure at Group level mainly because the manufacturing of the four categories of products of the Group is managed by the same management team and there are certain degree of sharing of production facilities and warehouses, therefore no segment information of total assets, total liabilities and capital expenditure information was presented.

7 Revenue and segment information (continued)

(a) Segment information

The segment information of the Group during the period is set out as follows:

	(Unaudited)					Total
	Six months ended 30 June 2023					
	Sales of	Sales of	Sales of	Sales of	Others	
	agar-agar	carrageenan	konjac products	blended products		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Revenue recognised at a point-in-time:						
Sales to customers	140,173	357,720	24,785	60,172	26	582,876
Cost of sales	(98,732)	(313,849)	(22,306)	(41,829)	(17)	(476,733)
Segment results	<u>41,441</u>	<u>43,871</u>	<u>2,479</u>	<u>18,343</u>	<u>9</u>	<u>106,143</u>

A reconciliation of results of reportable segments to profit for the period is as follows:

Results of reportable segments	106,143
Other income	2,473
Other losses – net	(3,549)
Net impairment gains on financial assets	1,759
Selling and distribution expenses	(8,453)
Administrative expenses	(45,435)
Finance income	304
Finance costs	(19,738)
Profit before income tax	33,504
Income tax expense	(8,388)
Profit for the period	<u>25,116</u>

7 Revenue and segment information (continued)

(a) Segment information (continued)

	(Unaudited)					Total
	Six months ended 30 June 2022					
	Sales of	Sales of	Sales of	Sales of	Others	
	agar-agar	carrageenan	konjac	blended	products	
		products	products			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	
Revenue recognised at a point-in-time:						
Sales to customers	149,346	423,021	27,535	38,822	5,433	644,157
Cost of sales	(94,836)	(301,392)	(24,166)	(23,949)	(4,393)	(448,736)
Segment results	<u>54,510</u>	<u>121,629</u>	<u>3,369</u>	<u>14,873</u>	<u>1,040</u>	<u>195,421</u>

A reconciliation of results of reportable segments to profit for the period is as follows:

Results of reportable segments	195,421
Other income	4,067
Other losses – net	(354)
Net impairment gains on financial assets	505
Selling and distribution expenses	(6,403)
Administrative expenses	(44,175)
Finance income	47
Finance costs	(11,282)
Profit before income tax	137,826
Income tax expense	(33,366)
Profit for the period	<u>104,460</u>

7 Revenue and segment information (continued)

(a) Segment information (continued)

Revenue from external customers by country/region, based on the destination of the shipment, is as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
China	294,712	255,097
Europe	144,121	233,594
Asia (excluding China)	103,515	99,859
South America	26,480	35,370
North America	12,470	18,551
Africa	1,486	1,626
Oceania	92	60
Total	<u>582,876</u>	<u>644,157</u>

8 Profit before income tax

Profit before income tax is stated after crediting and charging the following:

	Six months ended 30 June	
	<u>2023</u>	<u>2022</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Crediting		
Government grants	2,457	4,010
Net impairment gains on financial assets	1,759	505
Gains on disposal of a subsidiary	—	127
Interest income from banks	304	47
Charging		
Employee benefit expenses, including directors' emoluments	57,558	52,063
Depreciation of property, plant and equipment (note 12)	21,561	20,596
Net foreign exchange losses/(gains) on financing activities and operating activities	1,174	(124)
Amortisation of intangible assets (note 12)	1,233	3,337
Amortisation of land use rights (note 12)	716	532
Electricity and water expenses	15,286	16,489
Interest and finance charges on bank borrowings	17,804	10,781
Consulting fee	575	2,353

9 Income tax expense

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Current income tax	10,568	35,318
Deferred income tax	(2,180)	(1,952)
Income tax expense	<u>8,388</u>	<u>33,366</u>

The Group's income tax comprises:

- (i) Cayman Islands, British Virgin Islands ("BVI"), Indonesia and Hong Kong profits tax

The Company is an exempted company incorporated in the Cayman Islands and is not liable for taxation in the Cayman Islands on its Cayman Islands or non-Cayman Islands income.

The Group's subsidiaries incorporated in BVI are exempted companies and are not liable for taxation in BVI on their BVI or non-BVI income.

The Group's subsidiaries in Indonesia are subject to Indonesian profits tax at the rate of 22% (2022: 22%) on the estimated assessable profits for the year.

The Group's subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits for the year with the certain concession. Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department from the year of assessment 2022/2023 onwards, the first HK\$ 2 million of assessable profits of one of the Group's companies incorporated in Hong Kong under Hong Kong profits tax during the year is subject to a tax rate of 8.25%. The Group's remaining assessable profits above HK\$ 2 million will continue to be subject to a tax rate of 16.5% (2022: 16.5%).

9 Income tax expense (continued)

(ii) PRC corporate income tax (“CIT”)

Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the Group’s subsidiaries operate. The Company’s subsidiaries incorporated in the PRC are subject to CIT at the rate of 25% (2022: 25%), except for Fujian Province Lvqi Food Colloid Company Ltd. (“Lvqi (Fujian)”), Longhai City Donghaiwan Seaweed Breeding Comprehensive Development Company Limited (“Donghaiwan”) which are subject to CIT at the preferential rate of 15% and 12.5% for six months ended 2023 and 2022, respectively.

Lvqi (Fujian) obtained the qualification of certified high and new technology enterprises and has been entitled to preferential income tax rate of 15% since 2015, subject to renewal of the qualification for every three years interval. The latest approval of the qualification is for years 2021 to 2023.

Donghaiwan is qualified as an agricultural products enterprise and is subject to a CIT reduction of 50% granted by the local tax bureau, and the CIT rate is 12.5% for the six months ended 30 June 2023 and 2022.

(iii) PRC withholding income tax

According to the CIT Law, a 10% withholding tax on dividends received/receivable will be levied on the PRC companies’ immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies. For the six months ended 30 June 2023 and 2022, the holding companies of the Group’s subsidiaries in the PRC are Hong Kong incorporated companies and are subject to a withholding tax rate of 5%.

The Group has undistributed earnings of RMB 643,729,000 as at 30 June 2023 (31 December 2022: RMB 619,115,000), which, if paid out as dividends, would be subject to income tax borne by their overseas holding companies. An assessable temporary difference exists, but no deferred income tax liability has been recognised as the parent entities are able to control the timing of distributions from their subsidiaries and the subsidiaries are expected to retain these profits for future development purpose and not to distribute the profits in the foreseeable future.

10 Earnings per share

(a) Basic and diluted earnings per share

	Six months ended 30 June	
	<u>2023</u>	<u>2022</u>
	RMB	RMB
	(Unaudited)	(Unaudited)
		(Restated)
Basic earnings per share attributable to the ordinary equity holders of the Company	0.030	0.127
Diluted earnings per share attributable to the ordinary equity holders of the Company	<u>0.030</u>	<u>0.126</u>

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, by the weighted average number of ordinary shares in issue during the financial period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversation of all dilutive potential ordinary shares.

(b) Reconciliations of earnings used in calculating earnings per share

	Six months ended 30 June	
	<u>2023</u>	<u>2022</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
<i>Basic and diluted earnings per share</i>		
Profit attributable to the ordinary equity holders of the Company	<u>25,008</u>	<u>104,408</u>

10 Earnings per share (continued)

(c) Weighted average number of shares used as the denominator

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited) (Restated)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	825,649,956	821,414,933
Adjustments for calculation of diluted earnings per share:		
– Share options	3,735,420	7,390,001
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>829,385,376</u>	<u>828,804,934</u>

11 Dividends

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
Proposed 2023 interim dividend of Nil cents (2022: HK2.0 cents) per ordinary share	<u>—</u>	<u>14,029</u>

No interim dividend was proposed by the board of directors of the Company in 2023.

12 Property, plant and equipment, land use rights and intangible assets

	(Unaudited)			
	Property, plant and equipment	Land use rights	Intangible assets	
	RMB'000	RMB'000	Goodwill	Others
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023	401,428	54,873	46,801	21,071
Additions	9,488	—	—	—
Depreciation/amortisation	(21,561)	(716)	—	(1,233)
Disposal	(69)	—	—	—
Currency translation differences	2,527	789	750	1,390
At 30 June 2023	<u>391,813</u>	<u>54,946</u>	<u>47,551</u>	<u>21,228</u>

	(Unaudited)			
	Property, plant and equipment	Land use rights	Intangible assets	
	RMB'000	RMB'000	Goodwill	Others
	(Restated)	(Restated)	(Restated)	(Restated)
At 1 January 2022	412,184	55,936	44,826	27,538
Additions	19,252	—	—	180
Disposal of a subsidiary	(1,727)	—	—	—
Depreciation/amortisation	(20,596)	(532)	—	(3,337)
Disposal	(601)	—	—	—
Currency translation differences	510	158	981	8
At 30 June 2022	<u>409,022</u>	<u>55,562</u>	<u>45,807</u>	<u>24,389</u>

The bank borrowings of the Group as at 30 June 2023 was secured by the pledge of the Group's land use rights, buildings as stated in note 18(a).

13 Cash and bank balances

	As at 30 June 2023	As at 31 December 2022
	RMB'000 (Unaudited)	RMB'000 (Restated)
Cash and cash equivalents		
– Cash on hand	136	208
– Cash in banks	46,484	37,467
– Cash on hand and in banks	46,620	37,675
– Restricted cash - cash in banks	8,287	1,067
Total of cash and bank balances	54,907	38,742

The restricted cash are deposits held at bank as deposit and pledged for issue of notes payable of the Group.

14 Trade and other receivables

	As at 30 June 2023	As at 31 December 2022
	RMB'000 (Unaudited)	RMB'000 (Restated)
Trade receivables	107,527	155,971
Loss allowance provision	(2,402)	(4,165)
	105,125	151,806
Prepayments for purchases of raw materials	4,178	5,380
Export tax rebate receivables and deductible value-added tax	49,646	46,959
Other receivables	3,905	4,195
	57,729	56,534
Total trade and other receivables	162,854	208,340

The ageing analysis of the trade receivables as at the 30 June 2023 based on invoice date was as follows:

	As at 30 June 2023	As at 31 December 2022
	RMB'000 (Unaudited)	RMB'000 (Restated)
Up to 30 days	51,759	100,802
31 to 90 days	49,202	45,593
91 to 180 days	3,180	3,383
181 to 365 days	—	1,925
Over one year	3,386	4,268
	107,527	155,971

15 Share capital

	(Unaudited)		(Unaudited)	
	2023	2023	2022	2022
	Shares	RMB'000	Shares	RMB'000
				(Restated)
As at 1 January	825,256,000	7,444	820,824,000	7,406
Shares issued upon exercise of share options	4,432,000	41	4,432,000	38
As at 30 June	829,688,000	7,485	825,256,000	7,444

16 Equity-settled share-based payment

The equity-settled share-based payment expenses charged to the consolidated statement of profit or loss during the period ended 30 June 2023 are as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Share option scheme (a)	608	881
Share award scheme (b)	3,193	—
	3,801	881

16 Equity-settled share-based payment (continued)

(a) Share option scheme

On 5 August 2018, the then sole director of the Company approved a pre-IPO share option scheme of the Company. On 9 August 2018, the Company granted pre-IPO share options to the three employees, the former non-controlling shareholder of a subsidiary and a personal consultant to the directors of the Company. For the shares options grant to the three employees, the vesting period is 5 years from the listing date. No vesting period was set for share options grant to the other two parties.

The total amounts of the fair value of the share options to the three employees are expensed over the vesting period of 5 years and recorded in ‘employee benefit expenses’ in the consolidated statement of profit or loss. Those to the other two parties were expensed and recorded in ‘administrative expenses’ in the consolidated statement of profit or loss in 2019.

Movements in the number of the options outstanding are as follows:

	Six months ended 30 June	
	<u>2023</u>	<u>2022</u>
	(Unaudited)	(Unaudited)
As at 1 January	8,864,000	13,296,000
Exercised during the period	<u>(4,432,000)</u>	<u>(4,432,000)</u>
	<u>4,432,000</u>	<u>8,864,000</u>

16 Equity-settled share-based payment (continued)

(a) Share option scheme (continued)

Share options outstanding as at 30 June 2023 have the following exercise period and exercise prices:

	Date of grant	Number of share options outstanding as at June 30		Vesting period and maximum % of exercisable share options	Exercise period	Exercise price
		2023	2022			
		(Unaudited)	(Unaudited)			
Options granted to the three employees	9 August 2018	4,432,000	8,864,000	20% each year starting from 17 October 2019	17 October 2019 to 16 October 2024. All unexercised share options after the relevant exercise periods or upon resignation will lapse.	HK\$0.01

As at 30 June 2023, the remaining unamortised fair value of share options transferred to the three employees amounted to approximately RMB1,212,000 which will be charged to the consolidated statement of profit or loss in the future.

16 Equity-settled share-based payment (continued)

(b) Share award scheme

On 10 July 2020, the Company's board of directors approved a share award scheme of the Company. On 5 December 2022, the Company granted awarded shares to three employees, and the first vesting date is 1 April 2023, and the remaining vesting dates shall fall on the subsequent anniversary dates during the vesting period, and the total vesting period is 5 years.

The Company planned to use "shares held for the share award scheme" to award the grantees of the awarded shares.

The total amounts of the fair value of the awarded shares to the three employees are expensed over the vesting period of 5 years and recorded in 'employee benefit expenses' in the consolidated statement of profit or loss.

Movements in the number of awarded shares outstanding are as follows:

	As at 30 June 2023	As at 31 December 2022
	(Unaudited)	
As at 1 January	4,300,000	—
Granted during the period	—	4,300,000
Exercised during the period	860,000	—
	<u>3,440,000</u>	<u>4,300,000</u>

16 Equity-settled share-based payment (continued)

(b) Share award scheme (continued)

Awarded shares outstanding as at 30 June 2023 have the following vesting period and purchase prices:

	Date of grant	Number of awarded shares outstanding as at June 30		Vesting period and maximum % of awarded share	Exercise period	Purchase price
		2023	2022			
		(Unaudited)	(Unaudited)			
Awarded shares granted to three employees	5 December 2022	3,440,000	4,300,000	20% each year starting from 1 April 2023	1 April 2023 to 1 April 2027. All unexercised awarded shares after the relevant exercise periods or upon resignation will subject to re-granting at management's discretions.	—

As at 30 June 2023, the remaining unamortised fair value of awarded shares transferred to the three employees amounted to approximately RMB8,999,000 which will be charged to the consolidated statement of profit or loss in the future.

17 Trade and other payables

	As at 30 June 2023	As at 31 December 2022
	RMB'000 (Unaudited)	RMB'000 (Restated)
Trade payables	174,899	137,763
Payables for property, plant and equipment	6,972	9,261
Contract liabilities - advance receipts from customers	14,912	22,793
Employee benefit payables	9,270	8,758
Other taxes payable	2,427	4,996
Amount due to a relate party (note 21)	—	1,320
Others	19,130	22,947
	<u>227,610</u>	<u>207,838</u>

Trade payables are usually paid within 90 days of recognition.

The ageing analysis of trade payables as at 30 June 2023 based on invoice date was as follows:

	As at 30 June 2023	As at 31 December 2022
	RMB'000 (Unaudited)	RMB'000 (Restated)
0 to 90 days	156,048	114,135
91 to 180 days	13,524	21,024
181 to 365 days	2,979	748
over 365 days	2,348	1,856
	<u>174,899</u>	<u>137,763</u>

The carrying amounts of trade and other payables are considered to be the same as their fair values due to their short-term nature.

18 Bank borrowings and lease liabilities

	(Unaudited)			(Restated)		
	As at 30 June 2023			As at 31 December 2022		
	Current	Non-current	Total	Current	Non-current	Total
Bank borrowings (a)						
– secured	98,885	57,904	156,789	100,365	55,910	156,275
– unsecured	491,477	25,653	517,130	390,904	32,705	423,609
	<u>590,362</u>	<u>83,557</u>	<u>673,919</u>	<u>491,269</u>	<u>88,615</u>	<u>579,884</u>
Lease liabilities (b)						
– unsecured	1,595	2,087	3,682	1,605	2,850	4,455
Total borrowings	<u>591,957</u>	<u>85,644</u>	<u>677,601</u>	<u>492,874</u>	<u>91,465</u>	<u>584,339</u>
Total secured borrowings	98,885	57,904	156,789	100,365	55,910	156,275
Total unsecured borrowings	<u>493,072</u>	<u>27,740</u>	<u>520,812</u>	<u>392,509</u>	<u>35,555</u>	<u>428,064</u>
Total borrowings	<u>591,957</u>	<u>85,644</u>	<u>677,601</u>	<u>492,874</u>	<u>91,465</u>	<u>584,339</u>

(a) Bank borrowings

The bank borrowings of the Group as at 30 June 2023 were secured by the pledge of the Group's land use rights, buildings as follows:

	As at 30 June 2023	As at 31 December 2022
	RMB'000 (Unaudited)	RMB'000 (Restated)
Land use rights	24,006	25,607
Buildings	<u>86,700</u>	<u>68,205</u>
Total assets pledged as security	<u>110,706</u>	<u>93,812</u>

For the six months ended 30 June 2023, the weighted average effective interest rates on bank borrowings were 5.64% (2022: 4.46%).

18 Bank borrowings and lease liabilities (continued)

(a) Bank borrowings (continued)

The bank loans of the Group are supported by guarantees from Mr. Chan Kam Chung and Mr. Guo Dongxu, the directors of the Company, to the extent of RMB218,470,000 as at 30 June 2023.

(b) Lease liabilities

Lease liabilities are related to buildings of the Group.

	As at 30 June 2023 <u>RMB'000</u> (Unaudited)	As at 31 December 2022 <u>RMB'000</u> (Restated)
Minimum lease payments:		
Within one year	1,871	1,813
Later than 1 year and no later than 5 years	2,273	3,072
	<u>4,144</u>	<u>4,885</u>
Future finance charges	(462)	(430)
Total lease liabilities	<u>3,682</u>	<u>4,455</u>
Payable:		
Within one year	1,595	1,605
Over one year	2,087	2,850
Total lease liabilities	<u>3,682</u>	<u>4,455</u>

19 Commitments

Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is set out below:

	As at 30 June 2023	As at 31 December 2022
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Contracted but not recognised as liabilities:		
Property, plant and equipment	<u>7,891</u>	<u>9,672</u>

20 Contingent liabilities

At 30 June 2023, the Group had no material contingent liabilities (31 December 2022: nil).

21 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the period, and significant balances arising from related party transactions as at the end of the reporting period.

(a) Transactions with related parties

Two directors provided personal guarantees for the Group's bank borrowings. Details are set out in note 18.

21 Related party transactions (continued)

(b) Balances with related parties

	As at 30 June 2023	As at 31 December 2022
	RMB'000 (Unaudited)	RMB'000 (Restated)
Amount due to a related party (note 17)		
– Mr. Cai Ming Huang, the minority shareholder of a subsidiary	<u>—</u>	<u>1,320</u>

(c) Key management compensation

For the six months ended 30 June 2023, the key management compensation amounted to approximately RMB5,592,000 (2022: RMB5,078,000).

22 Events after the balance sheet date

There are no other material subsequent events undertaken by the Company or by the Group after 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading producer of seaweed-based and plant-based hydrocolloid products in the People's Republic of China (the "PRC") and the global markets. We ranked first amongst the agar-agar products as well as the refined and semi-refined carrageenan products manufacturers, in the PRC market in terms of the sales value, sales volume and the related market shares in 2020 and 2021. Also, we are the largest manufacturer of agar-agar products and refined and semi-refined carrageenan products globally in 2020 and 2021*. Our products, mainly including agar-agar, carrageenan, blended products and konjac gum, provide functional properties such as thickening, water-retention and stabilising functions for various end products, such as processed food, cosmetics and biotechnology products, and make up the main contents of many health foods for their rich soluble dietary fibres. In addition, we can extend product functions through blending different colloids and gums. For example, konjac gum blended products enable plant-based artificial meat to offer the mouthfeel resembling that of real meat, at the same time konjac has become increasingly popular under the trend of promoting healthy eating.

Distinguished from other conventional manufacturers, we are primarily a long-term partner of our customers in the supply of raw materials and in the product development process, which is significant to enhance the customer loyalty. Moreover, through product research and development, we are supporting and facilitating our customers the development of new applications and end products, which in turn help us to secure additional orders from these customers, which is also a long-term business development strategy of the Group.

Business Review

During the 1H2023, the Group was adversely affected by the decrease in demand from the overseas customers, which is believed to be cyclical in nature, and the sharp reduction in the gross profit margin of carrageenan products as a result of the increases in the cost of sales driven by the increased average cost of inventory consisted of seaweeds purchased at relatively high prices in 2022. Furthermore, the continuous increases in the interest rates in the bank borrowings in the United States dollars ("USD") and Hong Kong dollars ("HKD") and the depreciation of Renminbi ("RMB") against USD added pressure on the Group's operating profit of the 1H2023.

* Frost & Sullivan Market Research Report (June 2022)

The Group's total revenue was RMB582.9 million, representing a decrease of 9.5%, as compared to RMB644.2 million for the 1H2022. The decrease in revenue was mainly attributed to the decrease in demand from the overseas customers due to the adjustment in the safe stock levels coupled with the economic slow-down in most European countries during the 1H2023. As stated in the Company's annual report for the year ended 31 December 2022, the inflationary pressure of natural resources drove up and accelerated the demand for food and food additives included hydrocolloid products on a global dimension. However, as the price of carrageenan products increased sharply throughout 2022, the cost of maintaining the stock level constitutes a financial burden to customers and thus they tend to reduce the safe stock levels accordingly. The net profit of the Group for the 1H2023 decreased by RMB79.4 million to RMB25.1 million, primarily due to the net decrease in the overall sales volume by 37.7% from the overseas customers, coupled with the sharp decrease in the gross profit margin by 12.1 percentage points to 18.2% during the 1H2023 caused mainly by the increase in the cost of sales driven by the increased average cost of inventory consisted of seaweeds purchased at relatively high prices during 2022. The decrease in the net profit for the 1H2023 as compared to that of gross profit, was further aggravated by the increases in other losses, selling and distribution expenses, administrative expenses and finance costs incurred for the 1H2023 of RMB3.2 million, RMB2.1 million, RMB1.3 million and RMB8.5 million, which were partly offset by the decrease in income tax expense of RMB24.98 million, respectively.

During the 1H2023, the sales value in the PRC and the overseas markets accounted for 50.6% and 49.4% of the Group's total sales value, respectively (1H2022: 39.6% and 60.4%). Sales value in the PRC market amounted to RMB294.7 million, increased by RMB39.6 million or 15.5%. Sales value in the overseas market amounted to RMB288.2 million, decreased by RMB100.9 million or 26%, within which value of product sold to European countries decreased by RMB89.5 million or 38.3%, caused mainly by the decrease in demand from the overseas customers due to the adjustment in safe stock levels coupled with the economic slow-down in most European countries during the 1H2023

Ongoing Investment in Product Technology

The Group sets out its long-term goal of offering products carrying higher level of product technology which enables us to differentiate from its competitors in meeting the changing needs of customers. Through our ongoing investment in the product research and development capability, the Group has been able to enhance product mix and hence profitability in a sustainable manner. For instance, blended products provide customers with readily usable food additives solution which carries higher profit margin as compared to that of hydrocolloid products in raw form. Besides, quick-dissolve agar-agar used in dairy products and deep-processed carrageenan products used in bakery products are products with ample market potential and the Directors believe that these products shall become key contributors to the enhancement of the Group's profit margin in the foreseeable future. Furthermore, the konjac gum has become a key ingredient of various health foods for its rich soluble dietary fibers, and its development is on the momentum. As for the daily necessities, the markets for gel-type air fresheners and beauty products such as face masks were further developed during the 1H2023. The Directors expect that the diversity in the end products and the applications will be key areas for expansion in the future.

During the 1H2023, the sales revenue of blended products increased by RMB21.4 million or 55.0%, as compared to the 1H2022. This was mainly attributed to the increase in the number of new customers during the 1H2023 and this evidenced the payoff of the Group's R&D efforts in meeting the upgraded demands of customers in food additive products.

Business Prospects

Despite the negative factors that caused significant impact to the performance of the Group during the 1H2023, the global demand for hydrocolloid products is expected to pick up in the foreseeable future as a result of the downward adjustment in the price of carrageenan products and the need to replenish the decreasing level of stock held by the customer. Moreover, the Directors expect the sales performance in the PRC will continue to remain stable and the uprising trend of blended products will continue. As the key applications of hydrocolloid products are basic consumer goods including food, household and skincare products, there is a strong resilience in demand at all times and the Group shall be benefited from the edges well-established for years as the industry leader.

In terms of the Group's effort to diversify the geographical location of the production facilities as well as ongoing endeavor in cost-reductions, the Group's subsidiary, PT Hongxin Algae International ("**Hongxin**"), a company incorporated in Indonesia engaged principally in the manufacture of semi-refined carrageenan with clear advantages in lower operating cost and proximity to seaweed resources, has maintained its production scale on one hand and invested in the continuous enhancement of production facilities on the other with the aim to step up further its product quality as well as cost competitiveness during the 1H2023.

Looking forward, the prospect of hydrocolloid products is promising and the Group is committed to powering sustainable growth of business and improving returns on investments by leveraging its strengths in the business scale and the technical expertise.

Interim Dividend

The Board does not recommend the payment of interim dividend for the 1H2023.

Financial Review

Revenue

During the 1H2023, the Group's revenue was RMB582.9 million (1H2022: RMB644.2 million), decreased by 9.5% as compared to the same period of last year. The sales revenue of agar-agar, carrageenan and konjac products decreased by RMB9.2 million or 6.1%, RMB65.3 million or 15.4% and RMB2.8 million or 10.0%, respectively; while the sales revenue of blended products increased by RMB21.4 million or 55.0%, as compared to the same period of last year. The decrease in revenue was mainly attributed to the decrease in demand from the overseas customers due to the adjustment in the safe stock levels coupled with the economic slow-down in most European countries during the 1H2023. As stated in the Company's annual report for the year ended 31 December 2022, the inflationary pressure of natural resources drove up and accelerated the demand for food and food additives included hydrocolloid products on a global dimension. However, as the price of carrageenan products increased sharply throughout 2022, the cost of maintaining the stock level constitutes a financial burden to customers and thus they tend to reduce the safe stock levels accordingly. The total sales revenue of agar-agar and carrageenan products, contributing 85.4% of the total sales revenue of the Group, represented a decrease of 3.5% as compared to the 1H2022. This was mainly due to the drop in the sales volume of agar-agar and carrageenan products during the 1H2023.

Cost of Sales

For the 1H2023, the cost of sales of the Group was RMB476.7 million (1H2022: RMB448.7 million), representing an increase of 6.2%. Our cost of sales mainly consisted of the cost of raw materials (seaweed and konjac) and ancillary materials and production cost. The increase in the cost of sales during the 1H2023, given the net decrease in sales volume of 18.1%, was mainly as a result of the increased average cost of inventory consisted of seaweeds purchased at relatively higher prices during 2022. On the other hand, direct labor cost and manufacturing cost increased as production time and volume increased.

Gross Profit and Gross Profit Margin

For the 1H2023, the gross profit of the Group was RMB106.1 million (1H2022: RMB195.4 million), representing a decrease of 45.7%. The gross profit margin for the 1H2023 was 18.2%, representing a significant decrease of 12.1 percentage points as compared to the 1H2022. The gross profit margin of agar-agar, carrageenan, konjac and blended products were decreased by 6.9 percentage points, 16.5 percentage points, 7.8 percentage points and 2.2 percentage points, respectively. The decrease in gross profit was mainly due to the decrease in sales volume of agar-agar and carrageenan products, as well as the increase in cost of sales which outweighed the increase in sales prices of most products during the 1H2023, except for the case of konjac that average sales price was decreased during the 1H2023 due to market competitions. It is noteworthy that the Group was able to widen its gross profit margin from the soaring seaweed and final product prices in last year and such situation reversed during the 1H2023 as the average cost of inventory increased alongside with the increase in seaweed cost while sales prices of final product met its near-term ceiling. In substance, such cyclical pattern could more suitably be viewed as an industry-specific two-year span business cycle with wave magnitude varies with the degree of upswinging in price.

Selling and Distribution Expenses

For the 1H2023, the selling and distribution expenses of the Group were RMB8.5 million (1H2022: RMB6.4 million), representing an increase of 32.8%. The increase was mainly due to the participations of increased number of trade shows held locally and overseas after the full relaxation of pandemic control in China, as well as increased travelling and accommodation expenses in relation to overseas customer visits. On the whole, the ratio of selling and distribution expenses to sales revenue increased corresponding to the resumption of pre-pandemic level of overseas business activities.

Administrative Expenses

During the 1H2023, the administrative expenses of the Group were RMB45.4 million (1H2022: RMB44.2 million), representing an increase of 2.7%, which was mainly attributable to the increase in staff salaries and social insurance expenses caused mainly by the expansion of workforce and the annual salary increment during the 1H2023.

Net Finance Costs

During the 1H2023, the finance income and costs of the Group were RMB304,000 and RMB19.7 million, respectively, (2022: RMB47,000 and RMB11.3 million), representing an increase of 546.8% for finance income and 74.5% for finance costs. The increase in finance income was directly linked to the amount and duration of bank deposit made during the 1H2023, while the increase in finance costs was due to the extensive increase in interest rate on USD and HKD loans as well as increase in average balance of outstanding bank loans during the 1H2023.

Income Tax Expense

During the 1H2023, the income tax expense of the Group was RMB8.4 million (1H2022: RMB33.4 million), representing a decrease of RMB25.0 million or 74.9%, which was mainly due to the significant decrease in profit before income tax which was partly offset by the increase in the reversal of deferred income tax during the 1H2023.

	Six months ended 30 June	
	<u>2023</u>	<u>2022</u>
	RMB'000	RMB'000
		(Restated)
Current income tax	10,568	35,318
Deferred income tax	(2,180)	(1,952)
Income tax expense	<u>8,388</u>	<u>33,366</u>

Profit Attributable to Owners of the Company

During the 1H2023, profit attributable to owners of the Company was RMB25.0 million (1H2022: RMB104.4 million), representing a decrease of 76.0%, as a result of the decrease in corresponding magnitude in the net profit of the Group for the 1H2023.

Liquidity and Financial Resources

As of 30 June 2023, the Group's cash and bank balances amounted to RMB46.6 million, representing an increase of RMB8.9 million from 31 December 2022. The financial ratios of the Group as of 30 June 2023 were as follows:

	As at 30 June 2023	As at 31 December 2022
Current ratio	1.55	1.60
Gearing ratio ¹	41.9%	39.1%

Note 1: Gearing ratio is calculated as net debt divided by total of net debt and equity.

Net Current Assets

As of 30 June 2023, the Group's net current assets were RMB459.7 million, representing an increase of RMB29.3 million from RMB430.3 million as of 31 December 2022, primarily due to the increase of RMB163.3 million in inventories and the increase of RMB8.9 million in cash and bank balances; partly offset by the decrease in RMB45.5 million in receivables, the increase of RMB19.8 million in payables and the increase of RMB99.1 million in the balance of short-term bank loans as of 30 June 2023. These changes created a composite effect to the net change of net current assets level across the relevant periods.

Borrowings

As of 30 June 2023, the total bank borrowings of the Group amounted to RMB673.9 million, of which RMB590.4 million shall be repaid within one year and RMB83.6 million shall be repaid after one year. The carrying amounts of bank borrowings were denominated in HKD, USD and RMB.

The Group did not use any financial instruments for hedging purposes and did not have any net foreign currency investments hedged against existing borrowings and/or other hedging instruments. As of 30 June 2023, the weighted average interest rate on bank borrowings (per annum) was 5.64% (2022: 4.46%).

Interest Rate Risk

The interest rate risk of the Group arises from short-term interest-bearing deposits and bank borrowings. The Group is exposed to the interest rate risk of cash flow on short-term deposits and bank borrowings at the variable rate. Bank borrowings and the convertible bond obtained at fixed interest rates expose the Group to fair value interest rate risk.

The Group does not have any significant interest-bearing assets other than short-term interest-bearing deposits. The Directors do not expect any material impact on interest-bearing assets from interest rate movement, as interest rates on short-term deposits are not expected to fluctuate substantially.

Pledge of Assets

As of 30 June 2023, the Group had pledged its buildings and land use rights with a carrying value of RMB110.7 million (31 December 2022: RMB93.8 million) as security for its borrowings. As of 30 June 2023, the amount of secured bank borrowings was RMB156.8 million (31 December 2022: RMB156.3 million).

Future Plans for Material Investments or Capital Assets

As part of the Group's business strategy of diversifying production facilities geographically for enhancement of cost competitiveness, the Group is expected to invest further in the expansion of production capacity of Hongxin in 2023.

Save as disclosed above, the Group did not have other future plans for material investments or capital assets.

Material Acquisition and Disposal of Subsidiaries

The Group did not have any material acquisition and disposal of subsidiaries for the 1H2023.

Treasury Policies and Exposure to Fluctuation in Exchange Rates

The Group adopts a conservative approach for cash management and investment on funds. The Group's receipts and payments were mainly denominated in RMB and USD which enabled the Group to achieve a good degree of natural-hedging of foreign currency exposure. The Group will closely monitor foreign exchange fluctuations and will consider hedging should the need arises. During the 1H2023, the Group did not use any financial instrument for hedging purpose.

Change of Presentation Currency

The Group has changed its presentation currency from HKD to RMB for the preparation of the Group's consolidated financial statements since 1 January 2023. Having considered the principal activities of the Group such as production and sales are mainly conducted in the PRC and the functional currency of subsidiaries with operation in the PRC are denominated in RMB, the Directors consider that the change would result in a more appropriate presentation of the Group's transactions in the financial statements.

Employees and Remuneration Policy

As of 30 June 2023, the Group had 1,257 full-time employees, of whom 1,201 were based in Mainland China and 56 were based in Hong Kong and other countries and territories.

The management of the Group maintains good working relationship with its employees and provides training to keep the employees abreast of the latest developments of its products and production processes. Remuneration packages offered to the Group's employees are generally competitive and consistent with the prevailing levels in the market and are reviewed on a regular basis. Apart from basic remuneration and statutory retirement benefit scheme, discretionary bonuses and share award may be provided to selected employees taking into consideration the Group's performance and the performance of the individual employee.

Share Schemes

Pre-IPO Share Option Scheme

Prior to the listing, the Company adopted the pre-IPO share option scheme (the “**Pre-IPO Share Option Scheme**”) on 5 August 2018. During the 1H2023, 4,432,000 share options has been exercised under the Pre-IPO Share Option Scheme.

Save as disclosed above, no share option has been granted, exercised, lapsed or cancelled under the Pre-IPO Share Option Scheme during the 1H2023.

Post-IPO Share Option Scheme

The Company adopted the post-IPO share option scheme (the “**Post-IPO Share Option Scheme**”) on 25 September 2019. During the 1H2023, no share option has been granted, exercised, lapsed or cancelled under the Post-IPO Share Option Scheme.

Share Award Scheme

The Company adopted the share award scheme (the “**Share Award Scheme**”) on 10 July 2020. During the 1H2023, 860,000 awarded shares have been vested under the Share Award Scheme.

Save as disclosed above, no awarded share has been granted, vested, lapsed or cancelled under the Share Award Scheme during the 1H2023.

Capital Expenditures

Our capital expenditures primarily comprise cash expenditures for plant, equipment and land use rights. Our capital expenditures for the 1H2023 were RMB7.6 million (31 December 2022: RMB43.4 million).

Commitments

The Group's capital commitments in respect of those that have been contracted for as of 30 June 2023 and 31 December 2022 amounted to RMB7.9 million and RMB9.7 million, respectively.

Lease Liabilities

Lease liabilities are related to building of the Group.

	As at 30 June 2023	As at 31 December 2022
	RMB'000 (Unaudited)	RMB'000 (Restated)
Minimum lease payments:		
Within one year	1,871	1,813
Later than 1 year and no later than 5 years	2,273	3,072
	4,144	4,885
Future finance charges	(462)	(430)
Total lease liabilities	3,682	4,455

Contingent Liabilities

The Group did not have any material contingent liabilities as of 30 June 2023.

Subsequent Events

There was no significant event affecting the Group which occurred after 30 June 2023 and up to the date of this announcement.

Capital Structure

During the 1H2023, there has been no change in the capital structure of the Company. The capital of the Group companies is the ordinary shares.

Purchase, Sale or Redemption of Listed Securities of the Company

During the 1H2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Corporate Governance

The Company believes that good corporate governance can enhance its overall effectiveness, and thus create additional value for our shareholders. The Company is committed to maintaining high standards and has applied the principles that are set forth in the Corporate Governance Code (the “**CG Code**”) in Part 2 of the Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The Company’s corporate governance practices are based on these principles. The Board believes that good corporate governance standards are essential in contributing to the provision of a framework for the Company to safeguard the interests of its shareholders, enhance corporate value, formulate its business strategies and policies and enhance transparency and accountability.

The Company has adopted the principles and code provisions of the CG Code as the basis of the Company's corporate governance practices since its listing.

The Directors confirmed that the Company has complied with the applicable code provisions of the CG Code during the 1H2023, except for the deviation from code provision C.2.1 of the CG Code as described below.

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. CHAN Kam Chung (“**Mr. CHAN**”) is the Chairman and Chief Executive Officer of the Group. Mr. CHAN is responsible for formulating overall strategic planning and business strategies and implementing major development policies and initiatives for the business development of the Group as a whole. Mr. CHAN's vision and leadership have played a pivotal role in the Group's success and achievements to date, and therefore the Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The Group's long-serving and outstanding senior management team and the Board, which comprise experienced and high-caliber individuals, provide a check on balance of power and authority. The Board comprises four executive Directors (including Mr. CHAN) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Audit Committee and Review of the Interim Results

The Company established the audit committee (the “**Audit Committee**”) pursuant to a resolution of Directors passed on 25 September 2019. The primary responsibilities of the Audit Committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advise in respect of financial reporting at least at half-year intervals, and oversee the risk management policies and internal control procedures of the Group constantly. The Audit Committee consists of three independent non-executive Directors, namely Mr. HO Kwai Ching, Mark, Mr. NG Man Kung and Mr. HU Guohua. Mr. HO Kwai Ching, Mark currently serves as the chairman of the Audit Committee. The Audit Committee has adopted the terms of reference which are in line with the applicable code provisions in the CG Code. The Company’s unaudited interim results for the 1H2023, the condensed consolidated interim financial statements for the 1H2023 and this announcement have been reviewed by the Audit Committee.

The condensed consolidated interim financial statements for the 1H2023 is unaudited but has been reviewed by PricewaterhouseCoopers, the independent auditors of the Company, in compliance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

Directors' dealings in the shares of the Company

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set forth in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the Directors. All Directors are aware of the requirements under the Model Code. During the 1H2023, one of the former non-executive Directors, Mr. GUO Songsen (“**Mr. GUO**”), received an email enquiry (the “**Email Enquiry**”) from Hong Kong Securities and Futures Commission (“**SFC**”) on his dealings in the shares (the “**Shares**”) of the Company during the period from 25 February 2022 to 22 February 2023. Mr. GUO, through his legal representative, replied to the Email Enquiry on 14 July 2023. Before the receipt of the Email Enquiry, Mr. GUO did not inform any member of the Board and the company secretary of the Company of his dealings in the Shares, which was in breach of the provisions of the Model Code as adopted by the Company as the required standards for securities transactions by the Directors. The Directors and the company secretary have been informed of the Share dealing transactions following the receipt from SFC of the follow-up email on the Email Enquiry on 4 July 2023.

Pursuant to Rule A.3(a) of the Model Code, a director must not deal in any securities of the listed issuer on any day on which its financial results are published and during the period of 60 days (the “**Blackout Period**”) immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results. Pursuant to Rule B.8 of the Model Code, a director must not deal in any securities of the issuer without first notifying in writing the chairman or a director (otherwise than himself) designated by the board for the specific purpose and receiving a dated written acknowledgement.

On 30 March 2022, the Company published its annual results announcement for the year ended 31 December 2021 and accordingly, the Blackout Period (the “**2022 Blackout Period**”) commenced from 29 January 2022 and ended on 30 March 2022. On 30 March 2023, the Company also published its annual results announcement for the year ended 31 December 2022 and accordingly, the Blackout Period (the “**2023 Blackout Period**”) commenced from 29 January 2023 and ended on 30 March 2023.

Based on Mr. GUO's reply to the Email Enquiry, a copy of which has been provided to the Board by Mr. GUO, Mr. GUO purchased 546,000 Shares for a total consideration of HK\$740,160 and disposed of 2,000 Shares for a total consideration of HK\$2,720 during the 2022 Blackout Period (the "**2022 Share Transactions**"). During the 2023 Blackout Period, Mr. GUO purchased 316,000 Shares for a total consideration of HK\$430,060 and disposed of 180,000 Shares for a total consideration of HK\$328,180 (the "**2023 Share Transactions**"). In addition to the 2022 Share Transactions and 2023 Share Transactions, Mr. GUO was also involved in various dealings in Shares outside the 2022 Blackout Period and the 2023 Blackout Period with no compliance with Rules A.3(a) and B.8 of the Model Code. Mr. GUO resigned as a non-executive Director on 17 July 2023; and the Directors understand that Mr. GUO has updated all the disclosure of interest filings on 20 July 2023.

In order to avoid similar incidents from happening in the future, the Company has reminded all Directors the importance of complying with the Listing Rules, the Model Code and the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**") in dealings in the Shares and has arranged with the Hong Kong legal advisers to the Company to provide updated seminar on the relevant statutory and regulatory requirements. The Directors are also considering to implement other stringent requirements for the purpose ensuring that no Director would be involved in any dealings in the Shares in contravention of the Listing Rules, the Model Code and the SFO.

Saved as disclosed above, having made specific enquiries to the Directors, the Directors confirmed that they had complied with the required standard of dealings as set forth in the Model Code throughout the 1H2023.

Publication of the Interim Report

The interim report for the 1H2023 containing all the relevant information required by Appendix 16 to the Listing Rules and other applicable laws and regulations will be published on the websites of the Company and the Stock Exchange and despatched to the shareholders of the Company in due course.

By order of the Board

**GREEN FUTURE FOOD HYDROCOLLOID
MARINE SCIENCE COMPANY LIMITED**

CHAN Kam Chung

Chairman and Chief Executive Officer

Hong Kong, 30 August 2023

As of the date of this announcement, the executive Directors are Mr. CHAN Kam Chung, Mr. GUO Dongxu, Mr. CHAN Shui Yip and Mr. SHE Xiaoying and the independent non-executive Directors are Mr. HO Kwai Ching, Mark, Mr. NG Man Kung and Mr. HU Guohua.