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Haina Intelligent Equipment International Holdings Limited

海納智能裝備國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1645)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

- The Group recorded revenue of approximately RMB207.9 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB176.4 million).
- The Group recorded gross profit of approximately RMB78.8 million and gross profit margin of approximately 37.9% for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB43.7 million and gross profit margin of approximately 24.8%).
- Profit attributable to owners of the Company for the six months ended 30 June 2020 amounted to approximately RMB24.6 million (six months ended 30 June 2019: approximately RMB11.6 million).
- Profit attributable to owners of the Company (excluding listing expenses) for the six months ended 30 June 2020 amounted to approximately RMB40.6 million (six months ended 30 June 2019: approximately RMB19.4 million).

The board (the “**Board**”) of directors (the “**Directors**”) of Haina Intelligent Equipment International Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2020 (the “**Period**”), together with the comparative figures for corresponding six months ended 30 June 2019 (the “**Corresponding Period**”) as follows:

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

	<i>Note</i>	Six months ended 30 June	
		2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Revenue	5	207,873	176,437
Cost of sales		<u>(129,053)</u>	<u>(132,690)</u>
Gross profit		78,820	43,747
Other income	6	5,234	5,279
Selling and distribution costs		(5,479)	(6,141)
Administrative and other operating expenses		(20,561)	(18,665)
Reversal of impairment loss of trade receivables, net		228	311
Finance costs	7	(670)	(392)
Listing expenses		<u>(15,985)</u>	<u>(7,845)</u>
Profit before tax	7	41,587	16,294
Income tax expenses	8	<u>(9,175)</u>	<u>(2,296)</u>
Profit for the period		32,412	13,998
Other comprehensive (loss) income:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on consolidation/combination		<u>(1,652)</u>	<u>53</u>
Total comprehensive income for the period		<u><u>30,760</u></u>	<u><u>14,051</u></u>

		Six months ended 30 June	
		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Profit for the period attributable to:			
Owners of the Company		24,603	11,600
Non-controlling interests		7,809	2,398
		32,412	13,998
Total comprehensive income for the period attributable to:			
Owners of the Company		22,951	11,653
Non-controlling interests		7,809	2,398
		30,760	14,051
		<i>RMB cents</i>	<i>RMB cents</i>
		(Unaudited)	(Unaudited)
Earnings per share			
	<i>10</i>		
Basic and diluted		6.73	2.46

Unaudited Condensed Consolidated Statement of Financial Position

		At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
	<i>Note</i>		
Non-current assets			
Plant and equipment	11	33,508	39,594
Intangible assets		3,310	5,306
Goodwill		1,369	1,369
		<u>38,187</u>	<u>46,269</u>
Current assets			
Inventories		167,518	144,839
Trade and other receivables	12	79,587	98,527
Income tax recoverable		—	1,203
Restricted bank deposits		5,000	10,000
Bank balances and cash		204,055	35,701
		<u>456,160</u>	<u>290,270</u>
Current liabilities			
Trade and other payables	13	183,836	141,992
Lease liabilities		6,091	6,977
Amount due to ultimate holding company	14	—	52,150
Income tax payable		4,569	2
Deferred tax liabilities		—	1,000
		<u>194,496</u>	<u>202,121</u>
Net current assets		<u>261,664</u>	<u>88,149</u>
Total assets less current liabilities		<u>299,851</u>	<u>134,418</u>
Non-current liabilities			
Lease liabilities		16,116	18,949
Deferred tax liabilities		1,734	2,198
		<u>17,850</u>	<u>21,147</u>
NET ASSETS		<u><u>282,001</u></u>	<u><u>113,271</u></u>

		At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
	<i>Note</i>		
Capital and reserves			
Share capital	15	4,315	—*
Reserves		<u>256,136</u>	<u>99,530</u>
Equity attributable to owners of the Company		260,451	99,530
Non-controlling interests		<u>21,550</u>	<u>13,741</u>
TOTAL EQUITY		<u><u>282,001</u></u>	<u><u>113,271</u></u>

* Represents amount less than RMB1,000.

Notes to the Unaudited Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Island as an exempted company with limited liability on 20 December 2017, and its shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 3 June 2020 (the “**Listing**”). The Company’s registered office is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company’s principal place of business in Hong Kong is situated at Flat C, 21/F, Max Share Centre, 373 King’s Road, North Point, Hong Kong

The principal activity of the Company is investment holding. The Group is principally engaged in the design and production of automated machines for disposable hygiene products in the People’s Republic of China (the “**PRC**”).

In the opinion of the Directors, the immediate and ultimate holding company is Prestige Name International Limited, a limited liability company incorporated in the British Virgin Islands (the “**BVI**”). The ultimate controlling parties are Mr. Hong Yiyuan, Mr. Zhang Zhixiong, Mr. Su Chengya and Mr. He Ziping (collectively referred to as the “**Controlling Shareholders**”), who have been acting in concert over the course of the Group’s business history.

Pursuant to a group reorganisation (the “**Reorganisation**”), which was completed on 11 March 2019, as detailed in the section headed “History, Development and Reorganisation” of the prospectus of the Company dated 20 May 2020 (the “**Prospectus**”) issued in connection with the initial listing of the Company’s shares on the Main Board of the Stock Exchange, the Company became the holding company of the entities now comprising the Group.

2. BASIS OF PREPARATION

The Group resulting from the Reorganisation is regarded as a continuing entity under the common control of the Controlling Shareholders prior to and after the Reorganisation, and that control is not transitory. Accordingly, the unaudited condensed consolidated financial statements for the six months ended 30 June 2020 and the comparative information, as applicable, have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting under Common Control Combination” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The unaudited condensed consolidated statement of profit or loss and other comprehensive income, the unaudited condensed consolidated statement of changes in equity and the unaudited condensed consolidated statement of cash flows for the six months ended 30 June 2020 and 2019, respectively have been prepared on the basis as if the current group structure has been in existence throughout the relevant periods, or since the respective dates of incorporation or establishment, where there is a shorter period. The unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 and 31 December 2019 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the group structure has been in existence as at that date.

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020 (the “**Interim Financial Statements**”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The Interim Financial Statements are presented in Renminbi (“**RMB**”) and all amounts are rounded to the nearest thousand (“**RMB’000**”) except when otherwise indicated.

The preparation of the Interim Financial Statements in conformity with HKAS 34 requires the management of the Group to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a period to date basis. Actual results may differ from these estimates.

The Interim Financial Statements include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 December 2019, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA. They shall be read in conjunction with the Group’s audited financial information for the year ended 31 December 2019 as included in the Accountants’ Report as set out in Appendix I of the Prospectus (the “**2019 Financial Information**”).

The accounting policies and methods of computation applied in the preparation of the Interim Financial Statements are consistent with those applied in preparing the 2019 Financial Information.

3. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements have been prepared on the historical cost basis.

In the current interim period, the Group has adopted for the first time the following new/revised HKFRSs issued by the HKICPA, which are effective for the financial period beginning on 1 January 2020.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 39, HKFRSs 7 and 9	Interest Rate Benchmark Reform
Amendments to HKASs 1 and 8	Definition of Material

The adoption of the new/revised HKFRSs in the current period has no material impact on the Group's financial position and performance for the current and prior periods and/or on the disclosures set out in the Interim Financial Statement.

At the date of authorisation of the Interim Financial Statements, the HKICPA has issued a number of new/revised HKFRSs that are not yet effective for the current period, which the Group has not early adopted. The Directors do not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the consolidated financial statements of the Group.

4. SEGMENT INFORMATION

The Directors have determined that the Group has a single operating and reportable segment for the six months ended 30 June 2020 and 2019, as the Group manages its business as a whole as the design and production of automated machines for disposable hygiene products and the executive directors of the Company, being the chief operating decision makers of the Group, regularly review the internal financial reports on the same basis for the purposes of allocating resources and assessing performance of the Group. Segment information is not presented accordingly.

Information about geographical areas

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of the revenue is presented based on the location of customers. The Group's all non-current assets are located in the PRC.

Revenue from external customers

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
The PRC (place of domicile)	182,005	85,158
Indonesia	9,813	26,911
Dubai	9,126	—
Bangladesh	4,637	—
Korea	1,682	—
Angola	571	—
Pakistan	39	7,121
Vietnam	—	27,340
The Philippines	—	8,775
Hong Kong	—	8,407
Nigeria	—	7,851
Cambodia	—	4,874
	<u>207,873</u>	<u>176,437</u>

Information about major customers

Details of the customers (including entities under common control) individually accounting for 10% or more of aggregate revenue of the Group during the period are as follows:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Customer A	<u>26,632</u>	<u>Note</u>

Note: The customer contributed less than 10% of the total revenue of the Group for six months ended 30 June 2019.

5. REVENUE

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within HKFRS 15 —		
at a point in time		
Sales of machines of		
— baby diaper	44,832	104,136
— adult diaper	11,212	63,710
— lady sanitary napkin	—	4,874
— medical disposable face mask	144,734	—
Sales of components and parts	7,095	3,717
	<u>207,873</u>	<u>176,437</u>

The amounts of revenue recognised for the six months ended 30 June 2020 and 2019 that were included in the contract liabilities at the beginning of each of the reporting periods are approximately RMB15.1 million and RMB37.0 million, respectively.

6. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Bank interest income	488	191
Exchange gain, net	37	129
Government grants (<i>note</i>)	4,613	4,736
Sales of scrap materials	20	77
Gain on disposal of plant and equipment	40	108
Others	36	38
	<u>5,234</u>	<u>5,279</u>

Note: In the opinion of the management of the Group, there was no unfulfilled condition or contingency relating to the government grants.

7. PROFIT BEFORE TAX

This is stated after charging (crediting):

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(a) Finance costs		
Finance charges on lease liabilities	580	392
Interest on bank borrowings	90	—
	<u>670</u>	<u>392</u>
(b) Staff costs, including directors' remuneration		
Salaries, allowances, discretionary bonus and other benefits in kind	16,494	14,076
Contributions to defined contribution plans	1,687	1,706
	<u>18,181</u>	<u>15,782</u>
<i>Less: capitalised as "intangible assets"</i>	<u>—</u>	<u>(333)</u>
	<u>18,181</u>	<u>15,449</u>
(c) Other items		
Cost of inventories (<i>Note (i)</i>)	129,053	132,690
	<u>181</u>	<u>50</u>
Auditor's remuneration	<u>181</u>	<u>50</u>
Amortisation of intangible assets (included in "administrative and other operating expenses")	1,996	1,454
	<u>5,629</u>	<u>6,119</u>
Depreciation of plant and equipment (included in "cost of sales", "selling and distribution costs" and "administrative and other operating expenses", as appropriate)	5,629	6,119
<i>Less: capitalised as "intangible assets"</i>	<u>—</u>	<u>(52)</u>
	<u>5,629</u>	<u>6,067</u>
Exchange gain, net	(37)	(129)
Gain on disposal of plant and equipment	(40)	(108)
	<u>9,382</u>	<u>10,780</u>
Research and development expenses	9,382	10,780
<i>Less: capitalised as "intangible assets" (Note (ii))</i>	<u>—</u>	<u>(979)</u>
	<u>9,382</u>	<u>9,801</u>

Notes:

- i. During the six months ended 30 June 2020 and 2019, cost of inventories included approximately RMB12.4 million and RMB12.0 million respectively, relating to the aggregate amount of certain staff costs, depreciation and operating lease payments, which were included in the respective amounts as disclosed above.
- ii. During the six months ended 30 June 2020 and 2019, capitalised intangible assets included approximately Nil and RMB0.3 million respectively, relating to the staff costs which were included in the amounts as disclosed above.

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax — current period	9,240	2,639
Withholding tax		
Withholding tax on dividend income from a PRC subsidiary	399	—
Deferred tax		
Origination and reversal of temporary differences	(464)	(343)
Income tax expenses for the period	<u>9,175</u>	<u>2,296</u>

The Group's entities established in the PRC are subject to PRC Enterprise Income Tax at a statutory rate of 25% except for 晉江海納機械有限公司 (Jinjiang Haina Machinery Co. Ltd.*), which is recognised as a High and New-technology Enterprise and is entitled to a preferential tax rate of 15% for 3 years from 2019.

The group entities established in the Cayman Islands and the BVI are exempted from income tax, respectively.

Hong Kong Profits Tax has not been provided as the Group had no assessable profit arising from Hong Kong for the six months ended 30 June 2020 and 2019.

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on any dividends distributable by its subsidiaries established in the PRC.

* English name is for identification purpose only.

9. DIVIDENDS

No dividend were paid, declared or proposed during both interim periods. The Board has resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company for the period is based on the following data:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
<i>Profit:</i>		
Profit attributable to owners of the Company used for the purpose of basic earnings per share (RMB '000)	<u>24,603</u>	<u>11,600</u>
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the purpose of basic earnings per share ('000)	<u>365,503</u>	<u>348,000</u>

The weighted average number of ordinary shares used to calculate the basic earnings per share amounts has been determined on the assumption that the Reorganisation and the Capitalisation Issue have been effective on 1 January 2019.

Diluted earnings per share is same as basic earnings per share as there were no potential ordinary shares outstanding during both periods.

11. PLANT AND EQUIPMENT

During the six months ended 30 June 2020, plant and equipment purchased and disposed of by the Group were approximately RMB0.7 million (year ended 31 December 2019: approximately RMB17.4 million) and approximately RMB3.8 million (year ended 31 December 2019: RMB0.03 million), respectively.

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
<i>Note</i>		
Trade receivables from third parties	61,302	76,584
<i>Less:</i> Allowance for expected credit losses (“ECL”)	<u>(1,247)</u>	<u>(1,473)</u>
<i>12(a)</i>	<u>60,055</u>	<u>75,111</u>
Bills receivables	<u>—</u>	<u>1,000</u>
Other receivables		
Deposits and other receivables	878	1,201
Prepayment to suppliers	9,642	4,843
Prepayment for listing expenses	—	2,836
Other prepaid expenses	1,173	1,129
Value-added tax and other tax recoverable	6,119	10,687
Capital contribution receivable from the non-controlling shareholders of a subsidiary	<u>1,720</u>	<u>1,720</u>
	<u>19,532</u>	<u>22,416</u>
	<u>79,587</u>	<u>98,527</u>

12(a) Trade receivables

Apart from a portion of the contract sum retained by customers to cover the Group’s product quality warranty, the Group does not grant credit terms to customers in the sales contract. However, the Group would normally grant credit terms up to 30 days from the date of issuance of invoices to its customers for their processing of billing settlement as approved by the management on a case by case basis.

Included in trade receivables at 30 June 2020 and 31 December 2019 were retained sums of approximately RMB16,052,000 and RMB37,003,000, respectively. These are due for collection upon the expiry of product quality warranty period (which is usually 12 months from the acceptance by the customer of the machine).

The ageing analysis of trade receivables (net of allowance for ECL) based on revenue recognition date at the end of each reporting period is as follows:

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Within 30 days	16,164	18,640
31 to 60 days	7,931	2,995
61 to 90 days	4,913	14,701
91 to 180 days	4,519	15,063
181 to 365 days	11,211	15,848
Over 365 days	15,317	7,864
	<u>60,055</u>	<u>75,111</u>

At the end of each reporting period, the ageing analysis of the trade receivables (net of allowance for ECL) by due date is as follows:

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Not yet due	<u>15,337</u>	<u>28,725</u>
Past due:		
Within 30 days	8,202	14,348
31 to 60 days	8,947	125
61 to 90 days	5,099	9,663
91 to 180 days	5,347	6,650
181 to 365 days	6,468	10,705
Over 365 days	10,655	4,895
	<u>44,718</u>	<u>46,386</u>
	<u>60,055</u>	<u>75,111</u>

13. TRADE AND OTHER PAYABLES

		At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
	<i>Note</i>		
Trade payables	<i>13(a)</i>	<u>51,327</u>	<u>52,939</u>
Bills payables		<u>5,000</u>	<u>10,000</u>
Other payables			
Salaries payable		2,533	4,081
Contract liabilities — receipts in advance		114,952	63,169
Accruals and other payables		10,024	11,630
Amount due to a director		<u>—</u>	<u>173</u>
		<u>127,509</u>	<u>79,053</u>
		<u>183,836</u>	<u>141,992</u>

13(a) Trade payables

The trade payables are non-interest bearing and the Group is normally granted with credit term up to 180 days.

At the end of each reporting period, the ageing analysis of the trade payables based on goods receipt date is as follows:

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Within 30 days	33,292	32,743
31 to 60 days	7,742	6,869
61 to 90 days	5,895	7,707
91 to 180 days	2,850	2,954
181 to 365 days	567	1,195
Over 365 days	<u>981</u>	<u>1,471</u>
	<u>51,327</u>	<u>52,939</u>

14. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

During the six months ended 30 June 2020, the amount due to ultimate holding company amounting to approximately RMB40.0 million was settled and the remaining balance was waived by the ultimate holding company and credited to the capital reserve under the equity.

15. SHARE CAPITAL

Ordinary share of HK\$0.01 each	Note	Number of shares	HK\$	Equivalent to RMB'000
Authorised:				
At 1 January 2019 (audited)		3,800,000	380,000	203
Share subdivision	<i>i</i>	<u>34,200,000</u>	<u>—</u>	<u>—</u>
At 31 December 2019 and 1 January 2020 (audited)		38,000,000	380,000	203
Increase on 6 May 2020	<i>i</i>	<u>1,962,000,000</u>	<u>19,620,000</u>	<u>10,492</u>
At 30 June 2020 (unaudited)		<u>2,000,000,000</u>	<u>20,000,000</u>	<u>10,695</u>
Issued and fully paid:				
At 1 January 2019 (audited)		1	0.10	—*
Share subdivision	<i>i</i>	<u>9</u>	<u>—</u>	<u>—</u>
At 31 December 2019 and 1 January 2020 (audited)		10	0.10	—*
Issue of shares under the Capitalisation Issue	<i>ii</i>	347,999,990	3,479,999.90	3,195
Issue of shares under the Share Offer (including the partial exercise of the over- allotment)	<i>iii</i>	<u>122,004,000</u>	<u>1,220,040.00</u>	<u>1,120</u>
At 30 June 2020 (unaudited)		<u>470,004,000</u>	<u>4,700,040.00</u>	<u>4,315</u>

* Represents amounts less than RMB1,000.

Note:

- (i) On 18 March 2019, the Company's shares with par value HK\$0.10 per share were subdivided into 10 shares with par value HK\$0.01 per share in the share capital of the Company. Following such share subdivision, the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of par value HK\$0.01 per share.

On 8 May 2020, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares of par value HK\$0.01 each to HK\$20,000,000 divided into 2,000,000,000 shares of par value HK\$0.01 each, by the creation of additional 1,962,000,000 shares.

- (ii) Pursuant to the resolution in writing of the then sole shareholder of the Company passed on 8 May 2020, subject to the share premium account of the Company being credited as a result of the offering of the Company's shares, the directors of the Company were authorised to allot and issue a total of 347,999,990 shares of HK\$0.01 each to the then sole shareholder, credited as fully paid at par by way of capitalisation of the sum of HK\$3,479,999.9 standing to be credit of the share premium account of the Company (the “**Capitalisation Issue**”) and the shares allotted and issued pursuant to this resolution shall carry the same rights as all shares in issue (save for the right to participate in the Capitalisation Issue). The Capitalisation Issue was completed on 3 June 2020.
- (iii) On 3 June 2020, 116,000,000 ordinary shares with par value of HK\$0.01 each of the Company were issued at a price of HK\$1.38 per share by way of share offer (the “**Share Offer**”).

On 24 June 2020, 6,004,000 ordinary shares with par value of HK\$0.01 each of the Company were issued at a price of HK\$1.38 per share upon partial exercise of the over-allotment option (the “**Over-allotment**”).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Haina Intelligent Equipment International Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) is an established manufacturer engaging in the design and production of automated machines for manufacturing disposable hygiene products, including baby diapers, adult diapers, lady sanitary napkins and medical disposable face mask in the PRC. During the six months ended 30 June 2020 (the “**Period**”), the Group designed, developed and produced machines for manufacturing disposable hygiene products under its proprietary brand “Haina Machinery”. The Group provided comprehensive services to customers, from collaborating with customers on product designs, to customising products based on specifications provided by customers, conducting quality control, delivering products to customers, installing products for customers and providing after-sales services.

The Group has two production bases in the PRC, namely Jinjiang Production Base and Hangzhou Production Base, with a total gross floor area of approximately 35,400 sq.m. as at 30 June 2020, the Group operated 16 and six production lines in Jinjiang Production Base and Hangzhou Production Base, respectively. During the Period, the production process mainly involved in the assembly of components and parts that are used for the production of products. The Group mainly procured the components and parts for disposable hygiene product machines from third party sources.

The Group believes that strong research and development capabilities are key to maintaining its position in the disposable hygiene product machinery industry. The research and development team of the Group continuously monitors technological advancement in the disposable hygiene product machinery industry to keep abreast of industry knowledge. As at 30 June 2020, the Group owned 127 patents in the PRC. The Group dedicates significant resources to research and development capabilities in order to develop new products and/or to enhance the quality of its products.

For the Period, the Group recorded a total revenue of approximately RMB207.9 million represented total 210 of machines sold, in which the portion of medical disposable face mask machines was approximately 96%. The Group's customers are mainly located in the PRC and other 6 overseas countries during the Period. The net profit after tax for the Period was approximately RMB32.4 million.

Outlook

The Group strives to maintain its position as one of the top disposable hygiene product machinery providers in the PRC by strengthening research and development capabilities, increasing the competitiveness of products, increasing production capacity of production bases and deepening its penetration in the PRC and overseas markets. The Group intends to implement the following strategies and expansion plans to capitalise on its strengths so as to enhance its business prospects and financial performance.

(1) Strengthening research and development capabilities

The Group intends to acquire a suitable site to set up a dedicated research and development centre (the “**R&D Centre**”) in Jinjiang, Fujian Province, the PRC, and moves all current research and development activities to the R&D Centre, which would provide a dedicated area for the Group to develop new design of machines and also to support the development of products under the brand “Haina Machinery”. Setting up the R&D Centre would allow the Group to have better control over the product development priorities and shorten the lead time needed for developing customised products as the Group can conduct product production process and research and development activities concurrently. As products of the Group are divided into various modules, with the dedicated R&D Centre, the technologies for various modules can be developed simultaneously, which will significantly shorten the time required for the research and development of new products and enhance the efficiency of the product development process. As of the date of this announcement, there is no material development to be reported in setting up the R&D Centre.

In addition to setting up the R&D Centre, the Group also plans to strengthen research and development capabilities by conducting additional research and development activities through applying new technologies such as precision manufacturing and enhanced automation to improve the efficiency of existing products. The Group also intends to design and develop new products that cater for the trend and demand of the market. During the Period, the Group incurred research and development expenses of approximately RMB9.4 million which were funded by the Group's internal resources.

(2) *Increasing the competitiveness of products through the acquisition*

The Group plans to provide a comprehensive solution to customers through the acquisition of a company engaging in the development, design and manufacture of automatic packaging equipment. The Group considers that such integration will provide it with more competitive advantages and more flexibility in production.

As of the date of this announcement, there has been no material development in this strategy and expansion plan, and no specific acquisition target has been identified.

(3) *Increasing production capacity of production bases*

The Group plans to expand the production capacity of Jinjiang Production Base by leasing additional production premises with a floor area of approximately 10,000 sq.m. in Jinjiang, which is intended to house the following facilities:

- approximately 8,000 sq.m. will be used for production and ancillary production purposes, including but not limited to the five new production lines and space for equipment access; and
- approximately 2,000 sq.m. will be used for production support purposes, including but not limited to offices for its staff to handle administrative works and warehouses for storage.

As of the date of this announcement, there is no leasing of additional production premises to be reported in this strategy and expansion plan.

(4) *Deepening the Group's penetration in the PRC and overseas markets*

The PRC is the home market and it forms the foundation for further growing the Group's business and the springboard from which the Group expands its operations internationally. In view of the temporary decline of market demand for disposable hygiene product machinery due to the shift of capacity by downstream disposable hygiene product towards production of disposable medical face masks in the midst of outbreak of coronavirus disease 2019 ("COVID-19"), the growth of sales value of disposable hygiene product machinery is expected to slowdown in the later part of 2020. However, with the continuous expansion of downstream market and regular upgrade and replacement of machinery, the demand for disposable hygiene product machinery in the PRC and overseas markets, including Southeast Asia, India, Pakistan and South Africa, are set to recover from 2021 onward and the sales value of disposable hygiene product machinery in the PRC is estimated to increase at a rate of approximately 6.5% per year during 2020 to 2024, and to reach approximately RMB12.0 billion in 2024. The Group will continue to focus on solidifying its leading market position by deepening the Group's penetration in the PRC's growing disposable hygiene product machinery industry.

In addition, the Group intends to leverage on the established corporate brand name and research and development capabilities to increase resources to attract disposable hygiene product manufacturers in the overseas market, such as Southeast Asia and India where the economy, population and living standard have been growing continuously. As at 30 June 2020, customers of the Group are located in the PRC and 6 overseas countries. In this regard, after the lifting of the travel restrictions, in order to promote the sales of the Group's baby diaper, adult diaper and lady sanitary napkin machines, the Group intends to (i) increase sales and marketing resources to promote products by visiting offices and factories of potential customers which the Group met in trade exhibitions and participating in more trade exhibitions, and (ii) devote additional product development and design resources through research and development efforts to offer a wider range of designs tailored for preferences of different overseas markets.

As of the date of this announcement, there are 6 new customers (excluding sales of medical disposable face mask) located in the PRC as a result of deepening the Group's penetration in the PRC and overseas markets.

Furthermore, the Group intends to leverage on the existing business relationship with disposable medical/hygiene product manufacturers and connection with export agents to explore opportunities in supplying disposal medical/hygiene products in the PRC and overseas market in order to cope with the rapid changing market situation and consumers' needs.

Financial Review

Revenue

By type of products:

	Six months ended 30 June					
	<i>Units</i>	2020 <i>RMB'000</i> (Unaudited)	<i>%</i>	<i>Units</i>	2019 <i>RMB'000</i> (Unaudited)	<i>%</i>
Baby diaper machines	7	44,832	22	15	104,136	59
Adult diaper machines	2	11,212	5	8	63,710	36
Lady sanitary napkin machines	—	—	—	1	4,874	3
Medical disposable face mask machines	201	144,734	70	—	—	—
Components and parts	N/A	7,095	3	N/A	3,717	2
Total	210	207,873	100	24	176,437	100

During the Period, the Group's revenue increased by approximately RMB31.4 million (or 18%) to approximately RMB207.9 million for the Period as compared to approximately RMB176.4 million for the six months ended 30 June 2019. This was mainly due to the increase in the sales of medical

disposable face mask machines (approximately RMB144.7 million) and components and parts (approximately RMB3.4 million). The increase was partially offset by the decrease in sales of baby diaper machines (approximately RMB59.3 million), adult diaper machines (approximately RMB52.5 million) and lady sanitary napkin machines (approximately RMB4.9 million).

The increase in sales of medical disposable face mask machines was mainly due to the outbreak of COVID-19, which there was a strong demand of medical disposal face mask machines of the Group introduced to the market in February 2020. During the Period, the Group sold 201 units of medical disposable face mask machines which contributed a significant portion of its revenue.

During the Period, the contribution of the sales of baby diaper machines, adult diaper machines and lady sanitary napkin machines decreased from approximately 98% on total revenue for the six months ended 30 June 2019 to approximately 27% on total revenue for the six months ended 30 June 2020. This was mainly due to the Group rescheduling the production capacity in response to the strong demand of medical disposable face mask machines by the customers. The directors of the Company (the “**Directors**”) believe that the demand of the disposable face mask machines may be temporarily, so the Group will temporarily increase the the number of hours worked by each shift and also to better cooperate with suppliers in timely delivery of raw materials so as to catch up with the production schedule of diaper and lady sanitary napkin machines as agreed with its customers. Once the supply of medical disposable face masks in the market stabilises, and there will be a slow-down in the spread of the COVID-19. Thus, the Directors expect that there will be a gradual decrease in global demand for medical disposable face mask machines and the Group will then resume the normal production schedules for baby diaper machines, adult diaper machines and lady sanitary napkin machines.

In respect of the Group’s baby diaper, adult diaper and lady sanitary napkin machines, the Directors confirm that up to the date of this announcement, there had been no cancellation or delays of orders by any of the Group’s customers of these products due to the outbreak of COVID-19. The Group also agreed with its customers on extending production period of baby diaper, adult diaper and lady sanitary napkin machines due to the rescheduling of the production capacity for medical disposable face masks machines. Notwithstanding the temporary effect of COVID-19 and the upsurge in demand for medical disposable facemask machines, on the basis of the orders on hand, the Directors believe that in the long run, the demand for the baby diaper, adult diaper and lady sanitary napkin machines will resume to their ordinary levels after the outbreak has been effectively contained. As at 30 June 2020, the Group has entered into sales contracts with its customers for the sales and purchase of 34, 15, 6, 16 and 2 units of baby diaper machines, adult diaper machines, medical disposable face mask machines, lady sanitary napkin machines and underpad machines with aggregate contract values of approximately RMB213.6 million, RMB144.3 million, RMB4.7 million, RMB73.1 million and RMB4.7 million, respectively. Subsequent to 30 June 2020, the Group further entered into sales contracts with its customers for the sales and purchase of 6, 6, 4 and 3 units of baby diaper machines, adult diaper machines, medical disposable face mask machines and lady sanitary napkin machines with aggregate contract values of approximately RMB36.2 million, RMB50.3 million, RMB1.0 million and RMB10.2 million, respectively. The machines under these contracts are expected to be delivered during the second half of 2020 and the first half of 2021.

Gross profit and gross margin

The gross profit for the six months ended 30 June 2020 increased by approximately RMB35.1 million as compared with corresponding period in 2019 of approximately RMB43.7 million. The gross profit margin increased by 13% to approximately 38% for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately 25%). The increase in both gross profit and gross profit margin was mainly due to the outbreak of COVID-19, there was a strong demand of medical disposable face mask machines of the Group introduced to the market since February 2020. The medical disposable face mask machines which contributed a significant portion of its revenue and commanded favourable profit margins for the Group due to the strong market demand, shorter production time and lower production space requirements for their production.

Other income

The other income mainly comprised government grants, bank interest income and income from the sale of scrap materials. The government grants mainly represent the government grants received from government authorities of Fujian Province such as Jinjiang Finance Bureau, Jinjiang Bureau of Economy and Information Technology and Quanzhou Municipal People's Government, which the entitlements were unconditional and at the discretion of the relevant authorities. All the government grants received during the Period and/or the Corresponding Period were one off and unconditional.

Selling and distribution costs

The selling and distribution costs mainly comprised expenses incurred for business trips and entertainment, depreciation, promotional expenses and repairment costs. The selling and distribution costs decreased from approximately RMB6.1 million for the six months ended 30 June 2019 by approximately RMB0.6 million or 9.8% to approximately RMB5.5 million for the six months ended 30 June 2020. The decrease in selling and distribution costs was mainly attributable to (i) the decrease in depreciation of demo units from approximately RMB1.9 million for the six months ended 30 June 2019 by approximately RMB0.8 million or 42.1% to approximately RMB1.1 million for the six months ended 30 June 2020; (ii) the decrease in expense for business trips and entertainment from approximately RMB2.3 million for the six months ended 30 June 2019 by approximately RMB0.4 million or 17.4% to approximately RMB1.9 million for the six months ended 30 June 2020. Such decrease was offset by agent fee of approximately RMB0.6 million mainly paid for the PRC agent of a Korean customer during the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

Administrative expenses and other operating expenses

The administrative and other operating expenses mainly comprised research and development expenses, staff costs, depreciation, amortisation and donation. The administrative and other operating expenses increased from approximately RMB18.7 million for the six months ended 30 June 2019 by approximately RMB1.9 million or 10.2% to approximately RMB20.6 million for the six months ended 30 June 2020. The increase in administrative and other operating expenses was mainly due to donation of approximately RMB2.4 million paid by a PRC subsidiary to charitable organizations during the six months ended 30 June 2020 (six months ended 30 June 2019: Nil). Such increase was offset by slight decrease in research and development expenses from approximately RMB9.8 million for the six months ended 30 June 2019 by approximately RMB0.5 million or 5.1% to approximately RMB9.4 million for the six months ended 30 June 2020.

Listing expenses

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the listing (the “**Listing**”) of shares of the Company on the Main Board of the Stock Exchange by way of share offer (the “**Share Offer**”). The total listing expenses in relation to the Listing and the Share Offer are approximately HK\$64.4 million (equivalent to approximately RMB58.2 million), of which approximately HK\$31.8 million (equivalent to approximately RMB29.2 million) is directly attributable to the issue of shares to the public and capitalised during the six months ended 30 June 2020, and approximately HK\$32.6 million (equivalent to approximately RMB29.0 million) was reflected in profit or loss in accordance with the relevant accounting standards. Approximately HK\$17.4 million (equivalent approximately RMB16.0 million) of the listing expenses in relation to services performed was reflected in profit or loss for the six months ended 30 June 2020, and the remaining amount of approximately HK\$15.2 million (equivalent to approximately RMB13.0 million) has been reflected in profit or loss with prior period(s). The total listing expenses represent approximately 46.5% of the gross proceeds from the Share Offer (including the partial exercise of the over-allotment option).

Finance costs

For the six months ended 30 June 2020, finance costs approximately RMB0.7 million, increased by approximately 71% as compared with the six months ended 30 Jun 2019 (approximately RMB0.4 million). The increase was mainly due to an increase in financial charges on lease liabilities for right-of-use assets in respect of the Group’s leased properties.

Income tax expenses

For the six months ended 30 June 2020, income tax expenses were approximately RMB9.2 million, increased by approximately 299% as compared with the six months ended 30 June 2019 (approximately RMB2.3 million). The increase was mainly due to the increase in income taxable profits for the six months ended 30 June 2020.

Profit attributable to owners of the Company

For the six months ended 30 June 2020, the Company’s profit attributable to owners of the Company were approximately RMB24.6 million (six months ended 30 June 2019: approximately RMB11.6 million), respectively. Excluding listing expenses, the Company’s profit attributable to owners for the six months ended 30 June 2020 amounted to approximately RMB40.6 million (six months ended 30 June 2019: approximately RMB19.4 million). The increase in profit attributable to owners of the Company and profit attributable to owners of the Company (excluding listing expenses) was mainly due to the increase in revenue and gross profit as discussed above.

Interim dividend

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2020.

Use of proceeds

The shares of the Company have been listed on the Main Board of the Stock Exchange on 3 June 2020 with a total of 122,004,000 offer shares being issued (including the partial exercise of the over-allotment option) based on the share price of HK\$1.38 per share. The net proceeds, after deducting underwriting commissions and other fees in connection with the Listing, were approximately HK\$130.1 million or RMB119.5 million. The Directors intend to deploy the proceeds according to the manner set out in the prospectus of the Company dated 20 May 2020 (the “**Prospectus**”). The use of net proceeds will be in accordance with the implementation plan as set out in the Prospectus. Set out below is the actual use of net proceeds up to 30 June 2020.

				Amount to be applied in the first 6 months upon listing disclosed in the Prospectus RMB million	Time frame for utilisation
	Net proceeds allocation RMB million	Utilised net proceeds up to 30 June 2020 RMB million	Unutilised net proceeds up to 30 June 2020 RMB million		
Setting up the research and development centre	24.1	—	24.1	2.2	Within 2 years
Strengthening research and development capabilities	22.9	—	22.9	5.9	Within 2 years
Increasing production capacity	16.8	—	16.8	1.1	Within 3 years
Increasing competitiveness through acquisitions	43.5	—	43.5	—	Within 2 years
Working capital and general corporate purposes	12.2	(0.1)	12.1	0.8	Within 2 years
	<u>119.5</u>	<u>(0.1)</u>	<u>119.4</u>	<u>10.0</u>	

As at 30 June 2020, unutilised proceeds of approximately RMB119.4 million were deposited in licensed banks in Hong Kong and the PRC.

Liquidity and financial resources

During the Period, the Group’s working capital was financed by internal resources and the proceeds from the Share Offer. The current ratio of the Group, which is calculated based on the current assets divided by current liabilities, was approximately 2.35 times as at 30 June 2020 (31 December 2019: approximately 1.44 times). The Group generally financed its daily operations from cash flows generated internally.

Financial policies

The Group is exposed to liquidity risk in respect of settlement of its trade payables, bank borrowings and financing obligations, and also in respect of its cash flow management. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Gearing ratio

The Group's gearing ratio, which is calculated based on the total interest-bearing liabilities divided by the total equity (defined as the sum of bank loan and lease liabilities as at the respective year end divided by total equity as at the respective period end) was approximately 7.9% as at 30 June 2020 (31 December 2019: approximately 22.9%).

Capital Commitment and contingent liabilities

The Group had no material capital commitment and contingent liabilities at 30 June 2020.

Share option scheme

On 8 May 2020, a share option scheme (the “**Share Option Scheme**”) was approved and adopted by the Shareholders, under which, options may be granted to any eligible participants (including any executive Directors) to subscribe for shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme. The Share Option Scheme shall be valid and effective for a period of 10 years after the date of adoption.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption, and there is no outstanding share option at 30 June 2020 and at the date of this announcement.

Foreign exchange risk management

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi, Hong Kong dollars and United States dollars. The Group has not experienced any difficulties or effects on its operations or liquidity as a result of the fluctuations in currency exchange rates during the six months ended 30 June 2020. The Group did not enter into any foreign exchange derivative contract to manage the currency translation risk of Renminbi against United States dollars and Hong Kong dollars during the six months ended 30 June 2020, but the Group will continue to review its foreign exchange exposure regularly and might consider using financial instruments to hedge against foreign exchange exposure at appropriate time.

Human resources

The Group has employed a total of approximately 389 employees as at 30 June 2020 (30 June 2019: approximately 362 employees) in Hong Kong and the PRC. Staff costs (including Directors' emoluments) amounted to approximately RMB18.2 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB15.8 million). The Group recruits and selects candidates on the basis of their qualifications and suitability for the position. It is the Group's policy to recruit the most capable person available for each position.

Significant investments and material acquisitions and disposals

The Group has made no significant investment or any material acquisition or disposal of subsidiaries during the Period.

Subsequent event

Up to the date of this announcement, the Group has no significant subsequent event after 30 June 2020 which required disclosure.

Compliance with the Code on Corporate Governance Practices

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability. In the opinion of the Directors, except for the below deviation, the Company has adopted the applicable code provisions ("**CG Code**") as set out in the Corporate Governance Code as set out in Appendix 14 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange during the period from 3 June 2020 (the "**Listing Date**") to 30 June 2020.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. Mr. Hong Yiyuan, the chairman of the Board and the chief executive officer of the Company, currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all the Directors have confirmed that they have fully complied with the required standards set out in the Model Code during the period from the Listing Date to 30 June 2020.

Audit Committee

The audit committee of the Company (the “**Audit Committee**”) assists the Board in discharging its responsibilities for corporate governance, financial reporting and corporate control. The duties of the Audit Committee include reviewing, in draft form, the annual report and accounts, half-year report and provide advice and comments to the Board. The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Chan Ming Kit, Dr. Wang Fengxiang and Mr. Ng Tat Fung and one non-executive Director, namely Mr. Chang Chi Hsung. The chairman of the Audit Committee is Mr. Ng Tat Fung, who holds the appropriate professional accounting qualification and financial management expertise as required under the Listing Rules.

The financial information in this announcement has not been reviewed nor audited by the Company’s auditor, but the Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020 and is of the opinion that the preparation of such statements complied with the applicable accounting standards, the requirements under the Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

Purchase, sale or redemption of shares

Save for the issue of shares by the Company due to the partial exercise of the over-allotment option granted to the Joint Global Coordinators, details of which are set out in the announcement of the Company dated 24 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the period from the Listing Date to 30 June 2020.

Publication of interim results announcement and interim report

This announcement is published on the Company’s website (<http://www.haina-intelligent.com>) and the Stock Exchange’s website (<https://www.hkexnews.hk>). The 2020 interim report of the Company will be despatched to the shareholders of the Company and will be available on the respective websites of the Stock Exchange and the Company in due course.

Appreciation

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business partners and other professional parties for their support throughout the Period.

By order of the Board
Haina Intelligent Equipment International Holdings Limited
Hong Yiyuan
Chairman and Executive Director

Hong Kong, 24 August 2020

As at the date of this announcement, the Company has four executive Directors, namely Mr. Hong Yiyuan (Chairman), Mr. Zhang Zhixiong, Mr. Su Chengya and Mr. He Ziping, one non-executive Director, Mr. Chang Chi Hsung and three independent non-executive Directors, namely Mr. Chan Ming Kit, Dr. Wang Fengxiang and Mr. Ng Tat Fung.