



China Candy Holdings Limited
中國糖果控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8182



Interim Report 2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors (the “Directors”) of China Candy Holdings Limited (the “Company” and together with its subsidiaries, the “Group”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

Registered Office in the Cayman Islands

Clifton House, 75 Fort Street
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Headquarter

Wuli Industrial Zone
Jinjiang
Fujian Province
China

Principal Place of Business in Hong Kong under Part 16 of the Companies Ordinance

Room 1603, 16/F
China Building
29 Queen's Road Central
Hong Kong

Executive Directors

Mr. Xu Jinpei (*Chairman*)
Ms. Hong Yinzhi (*Chief Executive Officer*)

Independent Non-executive Directors

Mr. Chiu Sai Chuen Nicholas
Mr. Chu Wai Wa Fangus
Mr. Kwong Ping Man (*resigned on 29 February 2016*)
Mr. Ong King Keung (*appointed on 29 February 2016*)

Company Secretary

Ms. So Hau Kit ACIS, ACS

Compliance Officer

Ms. Hong Yinzhi

Audit Committee

Mr. Kwong Ping Man (*Chairman*)
(*resigned on 29 February 2016*)
Mr. Ong King Keung (*Chairman*)
(*appointed on 29 February 2016*)
Mr. Chiu Sai Chuen Nicholas
Mr. Chu Wai Wa Fangus

Remuneration Committee

Mr. Chu Wai Wa Fangus (*Chairman*)
Ms. Hong Yinzhi
Mr. Kwong Ping Man (*resigned on 29 February 2016*)
Mr. Ong King Keung (*appointed on 29 February 2016*)

Nomination Committee

Mr. Xu Jinpei (*Chairman*)
Mr. Chiu Sai Chuen Nicholas
Mr. Kwong Ping Man (*resigned on 29 February 2016*)
Mr. Ong King Keung (*appointed on 29 February 2016*)

Compliance Committee

Ms. Hong Yinzhi (*Chairman*)
Mr. Wang Zhihong
Ms. Yu Yanying
Mr. Lei Weichang
Ms. So Hau Kit

Authorized Representatives

Ms. Hong Yinzhi
Ms. So Hau Kit

Principal Share Registrar and Transfer Office in the Cayman Islands

Estera Trust (Cayman) Limited
Clifton House, 75 Fort Street
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Banker

China Construction Bank

Compliance Adviser

TC Capital International Limited

Auditors

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Legal Advisor as to Hong Kong Laws

Loong & Yeung

Company's Website

www.holeywoodfood.com

Stock Code

8182

FINANCIAL SUMMARY

	Six months ended 30 June		
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)	Change
Revenue	29,790	32,123	-7.3%
Gross profit	6,371	8,660	-26.4%
Profit before tax	259	311	-16.7%
Loss for the period	(298)	(545)	-45.3%
Loss per share			
– Basic and diluted (RMB cents)	(0.02)	(0.05)	-60.0%
Proposed dividend per share	–	–	–

The board of Directors (the "Board") announces the unaudited condensed consolidated results of the Group for the three months and six months ended 30 June 2016, together with the comparative figures for the corresponding periods in 2015 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2016**

	Notes	Three months ended 30 June		Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Revenue	2	18,694	18,687	29,790	32,123
Cost of sales		(14,749)	(13,589)	(23,419)	(23,463)
Gross profit		3,945	5,098	6,371	8,660
Other income	3	163	144	544	761
Distribution and selling expenses		(690)	(465)	(1,148)	(882)
Administrative expenses		(1,764)	(2,378)	(3,742)	(3,378)
Listing expenses		-	(2,483)	-	(2,602)
Finance costs	4	(850)	(1,067)	(1,766)	(2,248)
Profit/(loss) profit before tax		804	(1,151)	259	311
Income tax expense	5	(292)	(366)	(557)	(856)
Profit/(loss) for the period	6	512	(1,517)	(298)	(545)
Other comprehensive (expense)/income, net of income tax					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		(71)	6	(89)	1
Other comprehensive (expense)/income for the period, net of income tax		(71)	6	(89)	1
Total comprehensive income/(expense) for the period		441	(1,511)	(387)	(544)
		RMB cents	RMB cents	RMB cents	RMB cents
Earnings/(loss) per share					
- Basic and diluted	8	0.04	(0.14)	(0.02)	(0.05)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016**

	Notes	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	66,951	67,345
Prepaid lease payments	10	8,679	8,781
		75,630	76,126
Current assets			
Inventories		6,976	9,720
Prepaid lease payments	10	204	204
Trade and other receivables	11	37,960	39,375
Amounts due from related parties		57	27
Pledged bank deposits	12	2,000	1,200
Cash and bank balances		43,789	43,267
		90,986	93,793
Total assets		166,616	169,919
Current liabilities			
Trade and other payables	13	12,849	22,108
Amounts due to related parties		2,451	845
Borrowings	14	60,000	55,000
Current tax liabilities		2,242	2,608
		77,542	80,561
Net current assets		13,444	13,232
Total assets less current liabilities		89,074	89,358
Non-current liabilities			
Deferred tax liabilities		2,969	2,866
Net assets		86,105	86,492
Capital and reserves			
Share capital		11,007	11,007
Reserves		75,098	75,485
Total equity		86,105	86,492

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Statutory reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2015	-	-	31,444	2,142	24	13,381	46,991
Loss for the period	-	-	-	-	-	(545)	(545)
Other comprehensive income for the period	-	-	-	-	1	-	1
Total comprehensive income/ (expense) for the period	-	-	-	-	1	(545)	(544)
Statutory reserve appropriation	-	-	-	283	-	(283)	-
Balance at 30 June 2015 (Audited)	-	-	31,444	2,425	25	12,553	46,447
Balance at 1 January 2016	11,007	29,282	35,329	3,215	237	7,422	86,492
Loss for the period	-	-	-	-	-	(298)	(298)
Other comprehensive expense for the period	-	-	-	-	(89)	-	(89)
Total comprehensive expense for the period	-	-	-	-	(89)	(298)	(387)
Balance at 30 June 2016 (Unaudited)	11,007	29,282	35,329	3,215	148	7,124	86,105

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Net cash generated by operating activities	770	8,268
Net cash used in investing activities	(973)	(30)
Net cash generated by/(used in) financing activities	814	(8,073)
Net increase in cash and cash equivalents	611	165
Cash and cash equivalents at the beginning of period	43,267	21,778
Effects of exchange rate changes on the balance of cash held in foreign currencies	(89)	7
Cash and cash equivalents at the end of period	43,789	21,950
Analysis of balances of cash and cash equivalents		
Cash and bank balances	43,789	21,950

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

1. General Information, Basis of Preparation and Accounting Policies

The Company was incorporated in the Cayman Islands on 14 March 2014 as an exempted company with limited liability. Its parent and ultimate holding company is Jia Qing Developments Limited, a company incorporated in the British Virgin Islands. The shares of the Company were listed on the GEM of The Stock Exchange since 11 November 2015. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is at Room 1603, 16/F, China Building, 29 Queen's Road Central, Hong Kong.

The Company's principal activity during the six months ended 30 June 2016 was investment holding. The Group's principal activities during the six months ended 30 June 2016 was the manufacture and sales of candies products.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of Chapter 18 of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2016 are consistent with those adopted in the annual financial statements for the year ended 31 December 2015, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the "New and Revised HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA that are adopted for the first time for the current periods financial statements.

The adoption of the New and Revised HKFRSs has had no significant effect on these unaudited condensed consolidated financial statements for the six months ended 30 June 2016 and there have been no significant changes to the accounting policies applied in these unaudited condensed consolidated financial statements for the six months ended 30 June 2016.

The Group has not applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Group is currently assessing the impact of the adoption of such new and revised standards, amendments or interpretations to the Group but is yet to be in a position to state whether they would have any material financial impact on the Group's results of operations and financial position.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared on the historical cost basis. The unaudited condensed consolidated financial statements for the six months ended 30 June 2016 are presented in Renminbi ("RMB"), which is also the functional currency of the Group.

The condensed consolidated financial statements have not been audited by the Company's auditors, but have been reviewed by the audit committee of the Company.

2. Revenue

Revenue represents the amounts received and receivable from the manufacture and sales of candies products during the respective periods.

3. Other income

	Three months ended 30 June		Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Interest income on bank deposits	-	67	13	119
Government grants and subsidies	145	-	145	459
Others	18	77	386	183
	163	144	544	761

4. Finance costs

	Three months ended 30 June		Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Interest on borrowings	850	1,067	1,766	2,248

5. Income tax expense

	Three months ended 30 June		Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Current tax				
– People's Republic of China ("PRC") Enterprise Income Tax	179	236	454	602
Deferred tax				
– Current period	113	130	103	254
Total income tax recognized in profit or loss	292	366	557	856

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group had no assessable profits arising in or derived from Hong Kong for both periods.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. Profit/(loss) for the period

Profit/(loss) for the period has been arrived at after charging/(crediting):

	Three months ended 30 June		Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Employee benefits expense (including directors' and chief executive's emoluments):				
Salaries, wages and other benefits	1,876	1,760	3,128	3,080
Contributions to retirement benefit scheme	174	677	410	800
Total employee benefits expense	2,050	2,437	3,538	3,880
Auditors' remuneration – audit services	–	28	–	28
– non-audit service	–	–	–	–
Cost of inventories recognized as an expense	13,803	13,071	22,260	22,665
Amortization of prepaid lease payments (included in administrative expenses)	51	51	102	102
Depreciation of property, plant and equipment	819	829	1,606	1,540
Net foreign exchange gains	(314)	(100)	(362)	(272)

7. Dividends

No dividend has been paid or declared by the Company for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

8. Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

	Three months ended 30 June		Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Earnings/(loss):				
Profit/(loss) for the period attributable to owners of the Company for the purpose of basic and diluted earnings/(loss) per share	512	(1,517)	(298)	(545)
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share (in thousand)	1,340,000	1,072,800	1,340,000	1,072,800

The diluted earnings/(loss) per share is equal to the earnings/(loss) per share as there is no dilutive potential ordinary share in issue during the periods.

9. Property, plant and equipment

During the six months ended 30 June 2016, the Group acquired property, plant and equipment of approximately RMB1,212,000 (for the six months ended 30 June 2015: approximately RMB149,000). During the six months ended 30 June 2016, none of the property, plant and equipment was written off and disposed by the Group (for the six months ended 30 June 2015: nil).

10. Prepaid lease payments

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Analysed for reporting purposes as:		
Current assets	204	204
Non-current assets	8,679	8,781
	8,883	8,985

The Group's prepaid lease payments comprise land use rights of leasehold land situated in the PRC under medium-term leases.

As at 30 June 2016, the Group's leasehold land with an aggregate carrying amount of approximately RMB8,883,000 (2015: RMB8,985,000) have been pledged to secure general banking facilities granted to the Group (note 14).

11. Trade and other receivables

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Trade receivables	20,320	21,683
Allowance for doubtful debts	(804)	(804)
Trade receivables, net of allowance	19,516	20,879
Prepayments for purchase of raw materials	14,356	11,249
Value-added tax refundable	2,866	3,221
Other receivables and prepayments	1,222	4,026
	37,960	39,375

The following is an analysis of trade receivables by age, presented based on the invoice date and net of allowance, which approximates the respective revenue recognition dates:

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
0-30 days	14,690	13,042
31-60 days	222	5,016
61-90 days	-	1,929
91-120 days	4,372	526
121-365 days	20	366
Over 365 days	212	-
	19,516	20,879

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. The average credit period was ranging from 30 to 60 days. No interest is charged on overdue receivables.

The management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

12. Pledged bank deposits

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. As at 31 December 2015 and 30 June 2016, deposits amounting to approximately RMB1,200,000 and RMB2,000,000 respectively have been pledged to secure certain short-term bank borrowings or bills payable and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings or bills payable.

13. Trade and other payables

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Trade payables	5,137	8,737
Bills payable	2,000	3,000
Receipts in advance	1,011	723
Other payables and accruals	4,701	9,648
	12,849	22,108

The following is an aged analysis of trade payables based on the invoice date:

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
0-30 days	548	1,786
31-60 days	422	1,077
61-90 days	91	1,521
91-120 days	172	2,842
121-365 days	3,715	1,427
Over 365 days	189	84
	5,137	8,737

The trade payables are non-interest bearing and generally averaging to 60 days.

As at the end of each of the reporting period, bills payable of the Group amounting to approximately RMB2,000,000 (2015: approximately RMB3,000,000) was secured by short-term bank deposits to the extent of approximately RMB2,000,000 (2015: approximately RMB1,200,000). The bills payable are repayable with average maturity period of six months.

14. Borrowings

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Secured:		
Bank term loans (notes (i) and (iii))	55,000	50,000
Unsecured:		
Bank term loans (notes (ii) and (iii))	5,000	5,000
Carrying amount repayable within one year	60,000	55,000

Notes:

- (i) The secured term loans were secured by a charge over the Group's leasehold land and buildings.
- (ii) As at 30 June 2016 and 31 December 2015, the unsecured term loan was guaranteed by third parties.
- (iii) The bank loans are repayable within one year, bear interest at rates ranging from 4.62% to 8.25% (2015: 5.66% to 8.25%) per annum as of 30 June 2016. The weighted average effective interest rate on the term loans is 6.01% (2015: 6.88%) for the six months ended 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2016 and up to the date of this report, the Group had been principally engaged in the manufacturing of various types of candies in China which include jelly drops candies, aerated candies, hard candies and chocolate-made products.

Business Review

During the six months ended 30 June 2016, the Group maintained its focus in manufacturing various candies products. Of the various candies products which the Group produces, jelly drop candies continued to be the type of candy with the largest production volume. The Group launched a series of soft piping technique candies (軟裱花工藝糖), fudge cakes (蛋糕軟糖) and squeeze candies (擠壓糖) for the six months ended 30 June 2016.

The revenue of the Group for the six months ended 30 June 2016 was affected by the decrease in the sales to certain major customers of the Group resulting from economic slowdown in the PRC for the period and intensive competition from other candies manufacturers for the period. The aforesaid negative effect on the Group's revenue was partially offset by the increase in sales to new customers in the United States. Nevertheless, overseas customers continue to be the major source of the Group's revenue for the six months ended 30 June 2016. For the six months ended 30 June 2016, the Group attended exhibition in Germany to promote its products and develop new customers.

The Group has kept its strength in maintaining a diversified and innovative products portfolio which the Directors consider it crucial in enticing existing and new customers. The Group also continues to commit to stringent quality standards and quality control and excellent workplace condition. This enables the Group to achieve ongoing product improvement and enhance its product offerings.

Financial Review

Revenue

Revenue of the Group decreased by approximately 7.3% from approximately RMB32,123,000 for the six months ended 30 June 2015 to approximately RMB29,790,000 for the six months ended 30 June 2016. The decrease in revenue for the six months ended 30 June 2016 was mainly attributed to the decrease in the sales to certain major customers of the Group resulting from economic slowdown in the PRC for the period and intensive competition from other candies manufacturers for the period, and partially offset by the increase in sales to new customers in the United States.

Gross Profit

Gross profit of the Group decreased by approximately 26.4% from approximately RMB8,660,000 for the six months ended 30 June 2015 to approximately RMB6,371,000 for the six months ended 30 June 2016. The gross profit decreased as a result of the decrease in revenue.

On the other hand, gross profit margin decreased from approximately 27.0% for the six months ended 30 June 2015 to approximately 21.4% for the six months ended 30 June 2016. The decrease in gross profit margin was mainly due to (i) the decrease in price of the products of the Group which were mainly sold to Philippines as a result of the competition from other candies manufacturers in that region; and (ii) the increase in cost of sales per unit.

Distribution and Selling Expenses

Distribution and selling expenses increased by approximately 30.2% from approximately RMB882,000 for the six months ended 30 June 2015 to approximately RMB1,148,000 for the six months ended 30 June 2016. The increase in the distribution and selling expenses for the six months ended 30 June 2016 was mainly due to the increase in the exhibition fee and travelling expenses and partially offset by the decrease in transportation expenses.

Administrative Expenses

Administrative expenses of the Group increased by approximately 10.8% from approximately RMB3,378,000 for the six months ended 30 June 2015 to approximately RMB3,742,000 for the six months ended 30 June 2016. The increase in administrative expenses for the six months ended 30 June 2016 was mainly due to the increase in Directors' emoluments and the increase in legal and professional fee and partially offset by the decrease in social insurance costs and sundry expenses for the six months ended 30 June 2016.

Listing Expenses

During the six months ended 30 June 2015, the Group recognized non-recurring listing expenses under accrual basis of approximately RMB2,602,000, as expenses in connection with the listing of the shares of the Company on GEM. No such expenses were incurred for the six months ended 30 June 2016.

Finance Costs

Finance costs of the Group decreased by approximately 21.4% from approximately RMB2,248,000 for the six months ended 30 June 2015 to approximately RMB1,766,000 for the six months ended 30 June 2016. The decrease in finance costs for the six months ended 30 June 2016 is primarily due to the decrease in the effective interest rate of the Group's interest-bearing borrowings.

Loss for the Period

Loss for the period of the Group decreased by approximately 45.3% from approximately RMB545,000 for the six months ended 30 June 2015 to approximately RMB298,000 for the six months ended 30 June 2016. The decrease in loss for the six months ended 30 June 2016 was mainly due to (i) the listing expenses amounting to approximately HK\$2,602,000 incurred during the six months ended 30 June 2015 whilst no such expenses were recorded during the six months ended 30 June 2016; and (ii) partially offset by the decrease in revenue and decrease in gross profit as mentioned above.

Dividend

The Board does not recommend the payment of dividend for the six months ended 30 June 2016.

OUTLOOK

The shares of the Company were listed on GEM on 11 November 2015 (the "Listing"). With the corporate image strengthened by the Listing and the net proceeds received by the Group, the Directors feel confident to take a step forward in the confectioneries industry and further expand the Group's business operations with a view to creating shareholders' value.

The Directors note that under the influence of the global economic downturn, the purchasing power of the foreign consumers decreased in the first half of 2016. Thus the demand of candies decreased and the export of candies manufactures in the PRC also decreased in the first half of 2016. Looking forward, the Company is still facing the intensive competition from other candies manufacturers and economic slowdown in the PRC and the Group's turnover may be affected. However, the Group will endeavor to strengthen its position in the confectioneries industry by strengthening its team, refining its management, expanding its product offerings and its production capacity and attending overseas exhibitions to promote its products and develop new markets and customers. The Group will continue to seek for business opportunities in the confectioneries industry so as to generate greater value for the shareholders.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group's shares were successfully listed on GEM of the Stock Exchange on 11 November 2015. There has been no change in the capital structure of the Group since then. The capital of the Group only comprises of ordinary shares.

Historically, the Group has funded the liquidity and capital requirements primarily through operating cash flows and bank borrowings. The Group's bank borrowings is primarily for financing. As at 30 June 2016, the Group had bank borrowings of approximately RMB60,000,000 (31 December 2015: approximately RMB55,000,000). The increase was mainly due to the need of general working capital of the Group.

As at 30 June 2016, approximately RMB55,000,000 (31 December 2015: approximately RMB50,000,000) of the bank borrowings of the Group were secured and approximately RMB5,000,000 (31 December 2015: RMB5,000,000) were unsecured. All bank loans were repayable within one year from the end of the reporting period based on the scheduled repayment dates set out in the loan agreements. The bank borrowings carried interests ranging from approximately 4.62% per annum to 8.25% per annum as at 30 June 2016 (31 December 2015: approximately 5.66% per annum to 8.25% per annum). The weighted average effective interest rate on borrowings is approximately 6.01% per annum as at 30 June 2016 (31 December 2015: approximately 6.88% per annum).

As at 30 June 2016, the Group had approximately RMB43,789,000 in bank balance and cash (31 December 2015: approximately RMB43,267,000). On 11 November 2015, the Company was listed on the GEM of the Stock Exchange by way of placing and completed the placing of 375,200,000 shares of the Company (the "Shares") at placing price of HK\$0.2 per Share (the "Placing"). The actual net proceeds from the issue of new Shares under the Placing were approximately HK\$36,000,000. The Directors believe that with the new capital from the Placing, the Group is in a healthy financial position to expand its core business and to achieve its business objectives.

CAPITAL COMMITMENTS

The Group had approximately RMB1,260,000 of capital commitments not provided for in respect of property, plant and equipment as at 30 June 2016 (31 December 2015: approximately RMB1,260,000).

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated 30 October 2015 (the "Prospectus") and this report, the Group did not have other plans for material investments and capital assets.

GEARING RATIO

As at 30 June 2016, the Group's gearing ratio was approximately 72.5% (31 December 2015: approximately 64.6%), based on total debt of approximately RMB62,451,000 and total equity of approximately RMB86,105,000. The increase is mainly attributable to the increase in total debt as at 30 June 2016.

Note: Gearing ratio is calculated as the total debt divided by total equity. Total debt includes bank borrowing and amount due to related parties.

CHARGE OVER ASSETS OF THE GROUP

As at 30 June 2016, the Group had pledged bank deposits, prepaid lease payment and charge over the Group's buildings of approximately RMB2,000,000 (31 December 2015: approximately RMB1,200,000), RMB8,883,000 (31 December 2015: approximately RMB8,985,000) and RMB52,206,000 (31 December 2015: approximately RMB52,903,000) respectively. These pledged bank deposits, prepaid lease payment and charged buildings were secured to bills payable or general banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no significant investments held as at 30 June 2016, nor other material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2016.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no material contingent liabilities (2015: nil).

FOREIGN EXCHANGE EXPOSURE

The Group settles the cost of production in Renminbi (“RMB”) and most of the sales of the Group are settled in United States dollars (“US\$”) and others are denominated in HK\$. Therefore, the Group is exposed to foreign exchange risks of both US\$ and HK\$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had a total of approximately 169 employees. The Group’s staff cost for the six months ended 30 June 2016 amounted to approximately RMB3,538,000 (2015: approximately RMB3,880,000). The Group’s remuneration policies are in line with the prevailing market practice and are determined on the basis of performance, qualification and experience of individual employee. The Group recognises the importance of a good relationship with its employees. The remuneration payable to its employees includes salaries and allowance.

In the PRC, the Group’s employees have participated in various security insurance including social insurance prescribed by the Social Insurance Law of PRC (中華人民共和國社會保險法) and housing provident fund prescribed by the Regulations on Management of Housing Provident Fund (住房公積金管理條例).

SUBSEQUENT EVENT

There was no important event affecting the Group since 30 June 2016 and up to the date of this report.

RETIREMENT BENEFITS PLANS

Pursuant to the applicable PRC laws and regulations, the Group participates to contribute to various security insurance including social insurance and housing provident fund.

The employees of the Group’s subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. PRC subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total expense recognized in profit or loss of approximately RMB410,000 (2015: RMB800,000) for the period ended 30 June 2016 represents contributions payable to the plan by the Group at rates specified in the rules of the plan.

No forfeited contributions are available to reduce the contribution payable by the Group in future years.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group’s business plan as set out in the Prospectus with actual business progress up to 30 June 2016.

Business plan as set out in the Prospectus

Progress up to 30 June 2016

Expand and enhance the product offerings through continuous product development efforts

- Develop new products offerings and adjust the product mix in response to changing consumer tastes and preferences to achieve a more comprehensive product portfolio and improve the commercial appeal
- Improve formulas for the products such as using healthy or other new ingredients in the candies product

The Group has developed new products continuously and strengthened the product portfolio. The Group has also developed a new series of sugar doll, innovative products combined with marshmallow and gummy candy, soft piping technique candies (軟裱花工藝糖), fudge cakes (蛋糕軟糖) and squeeze candies (擠壓糖).

Continue to strengthen the brand recognition and to develop new brands and series in order to enhance the market position and to strengthen intellectual property protection

- Improve corporate image with production of new corporate brochures, products and sales information and other advertisement materials, new designs of packaging and placing of advertisements in building the "Holeywood" brand to increase customer's awareness and loyalty
- Register trademarks and patents for the new product formulae and new corporate trademarks

The Group has improved the Company's website and strengthened Internet media promotion. The Group has registered 12 patents and a number of utility model patents.

Expand production capacity

- Construct new factory premises for a new production line for expansion of production capacity of the gelatin candies
- Acquire new and upgrade production facility or machinery for the existing production lines to achieve better economies of scale

The Group is in the course of building new factory premises and purchased new machinery and upgraded the existing machinery. The Group has also improved the technological process to increase productivity.

Attract and retain quality personnel

- Provide structured training that is designed to provide a clear career advancement track to motivate and incentivize the staff

The Group has enhanced the cooperation with various professional institutions and personnel. The Group has also employed professionals in every aspect to strengthen the team and provided training to the professionals to improve the management and efficiency. In addition, the Group has improved the employees' benefit to retain talents.

Uplift marketing effort, expand distribution network and explore new business opportunities

Business plan as set out in the Prospectus

- Increase points of sales in terms of number of self-operating stores and wholesale distributors and strengthen the co-operation with trading companies
- Strengthen marketing efforts such as to place printed and online advertisements, promote new products via different channels to explore new business opportunities

Progress up to 30 June 2016

The Group has visited the overseas customers actively to explore new business opportunity and started using WeChat for Internet promotion and sales. The Group has cooperation with the traditional media to improve the Company's reputation and the brand popularity with the help of marketing events. The Group has also joined China Import and Export Fair, Fujian-Taiwan Food Fair and other exhibitions in Thailand and South Africa to explore the international and mainland China market and promote new products and also develop new markets and customers.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Listing were approximately HK\$36,000,000, which was based on the final placing price of HK\$0.2 per share after deducting the underwriting commission and actual expenses related to the Placing. Accordingly, the Group adjusted the use of proceeds in the same manner and proportion as shown in the Prospectus. Up to 30 June 2016, the net proceeds from the Placing had been applied as follows:

	Planned use of proceeds up to 30 June 2016 HK\$'000	Actual use of proceeds up to 30 June 2016 HK\$'000
Expand and enhance product offerings through continuous product development efforts	1,430	336
Continue to strengthen brand recognition and to develop new brands and series in order to enhance market position and to strengthen intellectual property protection	1,547	1,376
Expand production capacity	12,671	3,461
Attract and retain quality personnel	798	763
Uplift marketing effort, expand distribution network and explore new business opportunities	1,971	547
Repayment of existing bank borrowings	7,743	7,743
General working capital	1,455	1,455
Total	27,615	15,681

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business, the actual situation and the industry.

The Directors will constantly evaluate the Group's business objective and will change or modify plans against the changing market condition to ascertain the business growth of the Group.

DISCLOSURE OF ADDITIONAL INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2016, the interests and short positions of the Directors and chief executive of the Company in the shares (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Long position in the Shares:

Name of Director	Capacity/Nature	No. of Shares held/ interested in	Approximate percentage of interest
Mr. Xu Jinpei ("Mr. Xu") ^(Note 1)	Interest in controlled corporation	600,000,000	44.78%
Ms. Hong Yinzhi ("Ms. Hong") ^(Notes 2 and 3)	Interest of spouse	600,000,000	44.78%

Long position in the shares of associated corporations:

Name of Director	Name of associated corporation	Capacity/Nature	No. of shares held/interested in	Percentage of interest
Mr. Xu ^(Note 1)	Jia Qing Developments Limited ("Jia Qing")	Beneficial owner	1	100%
Ms. Hong ^(Note 2)	Jia Qing	Interest of spouse	1	100%

Notes:

1. Mr. Xu beneficially owns the entire issued share capital of Jia Qing. Therefore, Mr. Xu is deemed or taken to be interested in all the Shares held by Jia Qing for the purposes of the SFO. Mr. Xu is an executive Director and the sole director of Jia Qing.
2. Ms. Hong is the spouse of Mr. Xu. Pursuant to a confirmation signed by Mr. Xu and Ms. Hong, Mr. Xu and Ms. Hong confirmed and declared that they jointly and beneficially owned the equity interests in, amongst others, Jia Qing since its establishment or incorporation. Besides, Ms. Hong is also deemed, or taken to be, interested in all the Shares and the share in Jia Qing in which Mr. Xu is interested for the purpose of the SFO. Ms. Hong is the chief executive officer of the Company and an executive Director.
3. Mr. Xu and Ms. Hong have submitted their divorce application to the competent court in the PRC (the "Divorce Application"). As at the date of this report, the Divorce Application is subject to the review and ruling by the court and has not taken effect.

Save as disclosed above, none of the Directors and chief executive of the Company has any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rules 5.46 to 5.47 of the GEM Listing Rules.

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

As at 30 June 2016, the interest and short positions of substantial shareholders and other persons (not being a Director or chief executive of the Company) in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the Shares:

Name	Capacity/Nature	No. of Shares held/ interested in	Approximate percentage of interest
Jia Qing	Beneficial owner	600,000,000	44.78%
Noble Core Limited ("Noble Core")	Beneficial owner	268,200,000	20.01%
Mr. Kwok Shun Tim ("Mr. Kwok") ^(Note 1)	Interest of controlled corporation	268,200,000	20.01%
Ms. Yip Nga Wan ^(Note 2)	Interest of spouse	268,200,000	20.01%

Notes:

1. Mr. Kwok beneficially owns the entire issued share capital of Noble Core. Therefore, Mr. Kwok is deemed or taken to be interested in all the Shares held by Noble Core for the purpose of the SFO. Mr. Kwok is the sole director of Noble Core.
2. Ms. Yip Nga Wan is the spouse of Mr. Kwok. Accordingly, Ms. Yip Nga Wan is deemed or taken to be interested in all the Shares in which Mr. Kwok is interested for the purpose of the SFO.

Save as disclosed above, as at 30 June 2016, the Company had not been notified of any interests or short positions of substantial shareholders or other persons in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016 and up to the date of this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the shares of the Company (the "Code of Conduct"). Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the Code of Conduct for the six months ended 30 June 2016 and up to the date of this report.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions in the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules for the six months ended 30 June 2016.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 26 October 2015.

Since the adoption of the Share Option Scheme and up to the date of this report, no share options have been granted pursuant to the Share Option Scheme. There is no option outstanding, granted, cancelled and lapsed during the six months ended 30 June 2016.

INTEREST OF THE COMPLIANCE ADVISER

As confirmed by the Company's compliance adviser, TC Capital International Limited (the "Compliance Adviser"), save for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 13 February 2015, none of the Compliance Adviser or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company established an audit committee (the "Audit Committee") with written terms of reference aligned with the provision of the code provisions set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. As at the date of this report, the Audit Committee comprises Mr. Ong King Keung (chairman of the Audit Committee), Mr. Chiu Sai Chuen Nicholas and Mr. Chu Wai Wa Fangus, all of whom are independent non-executive Directors.

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, this report and the interim results announcement of the Group for the six months ended 30 June 2016. The condensed consolidated financial results for the six months ended 30 June 2016 are unaudited, but have been reviewed by the Audit Committee.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Each of the Directors or the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the six months ended 30 June 2016 and up to the date of this report.

By order of the Board
CHINA CANDY HOLDINGS LIMITED
Xu Jinpei
Chairman

Fujian, China, 5 August 2016

As at the date of this report, the executive Directors are Mr. Xu Jinpei and Ms. Hong Yinzhi; and the independent non-executive Directors are Mr. Chiu Sai Chuen Nicholas, Mr. Chu Wai Wa Fangus and Mr. Ong King Keung.