UNIVERSAL STAR

2019 INTERIM REPORT

UNIVERSAL STAR (HOLDINGS) LIMITED

星宇(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2346

CONTENTS

CORPORATE INFORMATION 2

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 4

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 5

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION 6

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY 7

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS 9

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 10

MANAGEMENT DISCUSSION AND ANALYSIS 27

OTHER INFORMATION 33

Corporate Information

BOARD OF DIRECTORS

Executive Director

Mr. Lyu Zhufeng
(Chairman of the Board and Chief Executive Officer)

Non-executive Director

Mr. Lu Qingxing

Independent Non-executive Directors

Mr. Fan Chun Wah, Andrew, *J.P.*
Mr. Yan Aru
Mr. Lee Ming Tak

AUDIT COMMITTEE

Mr. Fan Chun Wah, Andrew, *J.P.* *(Chairman)*
Mr. Lu Qingxing
Mr. Yan Aru

REMUNERATION COMMITTEE

Mr. Yan Aru *(Chairman)*
Mr. Lu Qingxing
Mr. Lee Ming Tak

NOMINATION COMMITTEE

Mr. Lyu Zhufeng *(Chairman)*
Mr. Fan Chun Wah, Andrew, *J.P.*
Mr. Yan Aru

COMPANY SECRETARY

Mr. Tse Kam Fai

AUTHORISED REPRESENTATIVES

Mr. Lyu Zhufeng
Mr. Tse Kam Fai

LEGAL ADVISERS AS TO HONG KONG LAW

King & Wood Mallesons

AUDITOR

BDO Limited
Certified Public Accountants

COMPLIANCE ADVISER

Southwest Securities (HK) Capital Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 8 Tuan Yuan Road
Dongqiao Economic Development Zone
Ningde City, Fujian Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

20/F, Effectual Building
16 Hennessy Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Corporate Information

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Industrial and Commercial Bank of China Limited,
Ningde City Jiaocheng Branch

STOCK CODE

2346

WEBSITE

www.xingyu.cc

Report on Review of Interim Condensed Consolidated Financial Statements

TO THE BOARD OF DIRECTORS OF UNIVERSAL STAR (HOLDINGS) LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 5 to 26. which comprise the condensed consolidated statement of financial position of Universal Star (Holdings) Limited and its subsidiaries (collectively referred to as the "**Group**") as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "**interim condensed consolidated financial statements**"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("**HKSRE 2410**") issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

OTHER MATTER

The comparatives in the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period ended 30 June 2018, and the related explanatory notes have not been reviewed in accordance with HKSRE 2410 or audited.

BDO Limited
Certified Public Accountants

Wan Che Bun
Practising Certificate Number P05804

Hong Kong, 28 August 2019

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

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	Six months ended 30 June **2019** ***RMB'000*** **(Unaudited)**	 2018 *RMB'000* (Unaudited)
Revenue	5	**202,731**	186,461
Cost of sales		**(145,877)**	(133,822)
Gross profit		**56,854**	52,639
Other income and other net gains	6	**1,596**	795
Selling and distribution expenses		**(2,218)**	(2,217)
Administrative expenses		**(22,636)**	(16,486)
Expected credit loss on financial assets		**(197)**	(436)
Finance costs	7	**(2,365)**	(2,397)
Profit before income tax expense	8	**31,034**	31,898
Income tax expense	9	**(6,976)**	(7,515)
Profit for the period		**24,058**	24,383
Other comprehensive income, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of operation outside the People's Republic of China ("**PRC**")		**255**	(179)
Items that will not be reclassified subsequently to profit or loss:			
Equity investment at fair value through other comprehensive income:			
— Net movement in fair value reserve		**–**	2,597
— Transferred from deferred tax liabilities		**–**	3,352
Other comprehensive income for the period	10	**255**	5,770
Total comprehensive income for the period		**24,313**	30,153
Earnings per share	12	***RMB***	*RMB*
Basic and diluted		**0.06**	0.07

Interim Condensed Consolidated Statement of Financial Position

AS AT 30 JUNE 2019

	Notes	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**125,118**	117,316
Investment properties		**15,321**	15,119
Prepaid land lease payments		**–**	13,009
Prepayments		**604**	628
		141,043	146,072
Current assets			
Inventories		**35,071**	35,379
Trade receivables	14	**80,380**	81,369
Deposits, prepayments and other receivables	15	**813**	4,648
Tax recoverable		**–**	5,343
Cash and cash equivalents		**167,551**	56,071
		283,815	182,810
Current liabilities			
Trade payables	16	**26,475**	31,612
Accruals and other payables	17	**8,894**	11,390
Lease liabilities		**500**	–
Amounts due to shareholders		**–**	438
Income tax payable		**3,994**	–
Borrowings	18	**52,250**	73,888
		92,113	117,328
Net current assets		**191,702**	65,482
Total assets less current liabilities		**332,745**	211,554
Non-current liability			
Deferred tax liability		**7,720**	5,725
		7,720	5,725
Net assets		**325,025**	205,829
EQUITY			
Share capital and reserves			
Share capital	19	**43,024**	–*
Reserves		**282,001**	205,829
Total equity		**325,025**	205,829

* The amount is less than RMB1,000

Interim Condensed Consolidated Statements of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Reserves							
	Share capital *RMB'000*	Share premium* *RMB'000*	Other reserves* *RMB'000* *(Note a)*	Statutory reserves* *RMB'000* *(Note b)*	Fair value reserves* *RMB'000* *(Note c)*	Exchange reserves* *RMB'000* *(Note d)*	Retained profits* *RMB'000*	Total reserves *RMB'000*	Total equity *RMB'000*
At 31 December 2018 (audited)	**–****	**63,132**	**220**	**22,738**	**–**	**(19)**	**119,758**	**205,829**	**205,829**
Initial application of HKFRS 16 *(note 3)*	**–**	**–**	**–**	**–**	**–**	**–**	**(25)**	**(25)**	**(25)**
Restated balances at 1 January 2019	**–****	**63,132**	**220**	**22,738**	**–**	**(19)**	**119,733**	**205,804**	**205,804**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**24,058**	**24,058**	**24,058**
Other comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**255**	**–**	**255**	**255**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**255**	**24,058**	**24,313**	**24,313**
Shares issued pursuant to the capitalisation *(note 19(e))*	**32,086**	**(32,086)**	**–**	**–**	**–**	**–**	**–**	**(32,086)**	**–**
Shares issued pursuant to the public offering and placing *(note 19(f))*	**10,938**	**98,667**	**–**	**–**	**–**	**–**	**–**	**98,667**	**109,605**
Transactions cost attributable to the public offering and placing *(note 19(f))*	**–**	**(14,697)**	**–**	**–**	**–**	**–**	**–**	**(14,697)**	**(14,697)**
At 30 June 2019 (unaudited)	**43,024**	**115,016**	**220**	**22,738**	**–**	**236**	**143,791**	**282,001**	**325,025**

Interim Condensed Consolidated Statements of Changes in Equity *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Reserves								
	Share capital *RMB'000*	Share premium* *RMB'000*	Other reserves* *RMB'000* *(Note a)*	Statutory reserves* *RMB'000* *(Note b)*	Fair value reserves* *RMB'000* *(Note c)*	Exchange reserves* *RMB'000* *(Note d)*	Retained profits* *RMB'000*	Total reserves *RMB'000*	Total equity *RMB'000*
At 31 December 2017 (audited)	–**	–	220	13,886	25,146	279	46,525	86,056	86,056
Profit for the period	–	–	–	–	–	–	24,383	24,383	24,383
Other comprehensive income for the period	–	–	–	–	5,949	(179)	–	5,770	5,770
Total comprehensive income for the period	–	–	–	–	5,949	(179)	24,383	30,153	30,153
Issue of shares	–**	63,132	–	–	–	–	–	63,132	63,132
Transfer within equity upon disposal of equity investment at FVOCI	–	–	–	–	(31,095)	–	31,095	–	–
At 30 June 2018 (unaudited)	–**	63,132	220	13,886	–	100	102,003	179,341	179,341

* The total of these amounts as at the reporting dates represents "Reserves" in the interim condensed consolidated statement of financial position.

** The amount is less than RMB1,000.

Notes:

(a) Other reserves represented the aggregate of the paid up capital.

(b) Statutory reserves represented the amount transferred from net profit for the year of the subsidiaries established in the PRC (based on the subsidiaries PRC statutory financial statements) in accordance with the relevant PRC laws until the statutory reserves reach 50% of the registered capital of the subsidiaries. The statutory reserves cannot be reduced except either in setting off the accumulated losses or increasing capital.

(c) Fair value reserves represented the cumulative net change in the fair value of financial assets at fair value through other comprehensive income held at the end of each reporting period.

(d) Exchange reserves comprises all relevant translation differences arising from the translation of the financial statements of operations with functional currency other than RMB.

Interim Condensed Consolidated Statements of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net cash generated from/(used in) operating activities	**41,316**	(21,061)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(30)**	(693)
Prepayments for property, plant and equipment	**–**	(3,189)
Proceeds from disposal of property, plant and equipment	**–**	10
Proceeds from disposal of financial assets at fair value through other comprehensive income	**–**	59,512
Interest income received	**126**	43
Net cash generated from investing activities	**96**	55,683
Cash flows from financing activities		
Proceeds from borrowings	**16,800**	62,474
Repayment of borrowings	**(38,299)**	(78,000)
Payment of lease liabilities	**(596)**	–
Repayment to shareholders	**(438)**	(113,790)
Interest paid for borrowings	**(2,307)**	(2,397)
Proceeds from issuance of shares	**–**	63,132
Shares issued pursuant to the public offering and placing	**109,605**	–
Transaction costs attributable to the public offering and placing	**(14,697)**	–
Net cash generated from/(used in) financing activities	**70,068**	(68,581)
Net increase/(decrease) in cash and cash equivalents	**111,480**	(33,959)
Cash and cash equivalents at beginning of the period	**56,071**	48,377
Cash and cash equivalents at end of the period	**167,551**	14,418

Notes to the Interim Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. GENERAL INFORMATION

Universal Star (Holdings) Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands as an exempted company under the Companies Laws Chapter 22 of the Cayman Islands. The Company was listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 May 2019. The address of Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal place of business is located at the People's Republic of China (the "**PRC**").

The principal activity of the Company is investment holding. The principal activities of the Group are production and sales of sintered NdFeB magnetic materials, also known as neodymium magnet.

At the date of this report, in the opinion of the directors of the Company (the "**Directors**"), the Company's immediate and ultimate holding company is Star Lv Limited, a company incorporated in the British Virgin Island ("**BVI**") with limited liability.

2. BASIS OF PREPARATION AND PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**"), issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirement of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. These interim condensed consolidated financial statements were authorised for issue on 28 August 2019.

These interim condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2018 annual consolidated financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2019. This is the first set of the Group's financial statements in which HKFRS 16 have been adopted. Details of any changes in accounting policies are set out in note 3. Except for the adoption of HKFRS 16, the adoption of the new and revised Hong Kong Financial Reporting Standards (the "**HKFRSs**") have no material effect on these interim condensed consolidated financial statements. The Group has not early adopted any new and revised HKFRSs that has been issued but not yet effective in the current accounting period.

The preparation of these interim condensed consolidated financial statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 4.

These interim condensed consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated and is the same as the functional currency of the Company and the Group. These interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes 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 the 2018 annual financial statements. These interim condensed consolidated financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with HKFRSs and should be read in conjunction with the 2018 consolidated financial statements.

These interim condensed consolidated financial statements are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the HKICPA. BDO Limited's independent review report to the Board of Directors is included on page 4.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

3. ADOPTION OF NEW OR REVISED HKFRSs

The Group has applied for the first time the following new and revised standards and interpretation ("**new and revised HKFRSs**") issued by the HKICPA which are effective for the Group's financial year beginning on or after 1 January 2019.

HKFRS 16	Lease
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
HK(IFRIC)-Int 23	Uncertainty over income tax treatments
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except as described below, the application of the new and revised HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

The new and revised HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures.

(i) Impacts and changes in accounting policies of application on HKFRS 16 "Lease" ("HKFRS 16")

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("**HKAS 17**"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

3. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

(i) Impacts and changes in accounting policies of application on HKFRS 16 "Lease" ("HKFRS 16") *(Continued)*

The following tables summarised the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	1 January 2019 *RMB'000*
Statement of financial position as at 1 January 2019	
Right-of-use assets presented in property, plant and equipment	13,274
Lease liabilities (current)	1,076
Net reduction in retained profits	(25)

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities	1 January 2019 *RMB'000*
Operating lease commitment as of 31 December 2018	1,301
Less: short term leases for which lease terms end within 31 December 2019	(99)
Less: leases of low-value assets	(66)
Less: future interest expenses	(60)
Total lease liabilities as of 1 January 2019	1,076
The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019	6.0%

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

3. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets (the Group has leased photocopying machines) and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

3. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

(iii) Accounting as a lessee *(Continued)*

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(iv) Accounting as a lessor

The Group has leased out its investment properties to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these interim condensed consolidated financial statements.

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

3. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

(vi) Amounts recognised in the statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets presented in property, plant and equipment and lease liabilities and the movements during the period are set out below:

	Right-of-use assets *RMB'000*	Lease liabilities *RMB'000*
As at 1 January 2019	13,274	1,076
Depreciation expense	(527)	–
Interest expense	–	22
Payments	–	(596)
Exchange differences	(2)	(2)
As at 30 June 2019	**12,745**	**500**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In preparing this interim condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2018 annual financial statements, except for new significant judgements related to the application of HKFRS 16 as described in note 3.

5. REVENUE AND SEGMENT REPORTING

The executive Directors of the Company have been identified as the chief operating decision-makers of the Group ("CODM") who review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The Group is principally engaged in the production and sales of sintered NdFeB magnetic materials. The CODM assess performance of the operation based on a measure of operating results and consider the operation in a single operating segment. Information reported to the CODM for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment — production and sales of sintered NdFeB magnetic materials (finished products and rough cast products).

(i) Information about major customers

No individual external customers accounted for 10% or more of the Group's revenue for each of the periods ended 30 June 2019 and 2018.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

5. REVENUE AND SEGMENT REPORTING *(Continued)*

(ii) Disaggregation of revenue

All the Group's revenue is derived from contracts with customers.

In the following table, revenue is disaggregated by primary geographical markets, major products and timing of revenue recognition.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Primary geographical markets		
The PRC	**202,731**	179,969
Asia (exclusive of the PRC)	**–**	5,271
Europe	**–**	1,221
	202,731	186,461
Major products		
Finished products	**156,202**	145,628
Rough cast products	**46,529**	40,833
	202,731	186,461
Timing of revenue recognition		
Product transferred at a point in time	**202,731**	186,461

6. OTHER INCOME AND OTHER NET GAINS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**126**	43
Exchange loss, net	**–**	(190)
Government grants *(Note)*	**630**	1
Rental income generated from investment properties	**840**	905
Gain on disposal of property, plant and equipment	**–**	7
Others	**–**	29
	1,596	795

Note: Government grants mainly comprised of subsidy related to the Group's innovation projects and award for industrial development. There are no unfulfilled conditions or contingencies attaching to these grants.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

7. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest charge on bank and other borrowings	**2,343**	2,397
Interest on lease liabilities	**22**	–
	2,365	2,397

8. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging the following:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Amortisation of prepaid land lease payments	**–**	149
Cost of materials consumed	**123,956**	113,189
Research and development expenditure	**5,573**	4,893
Depreciation of property, plant and equipment	**5,500**	4,812
Depreciation of investment properties	**585**	574
Operating lease charges in respect of:		
— Rented premises	**–**	435
— Motor vehicles	**–**	16
Short-term leases expenses	**75**	–
Low-value assets leases expenses	**5**	–
Listing expenses	**7,523**	3,141
Staff costs (including Directors' emoluments):		
— Salaries, wages and other benefits	**9,251**	8,394
— Retirement scheme contribution	**1,108**	1,140
	10,359	9,534

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
Tax for the current period	**6,318**	5,079
Overprovision in prior period	**(1,337)**	–
Deferred tax		
Charged to profit or loss for the period	**1,995**	2,436
	6,976	7,515

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

Pursuant to the rules and regulations of the BVI, the Group is not subject to any income tax in the BVI.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong during the period.

Under the PRC Corporate Income Tax Law (the "**CIT Law**"), which became effective on 1 January 2008, the Group's PRC entities are subject to income tax at a rate of 25%, unless otherwise specified. One of the Group's subsidiaries, Ningde Xingyu Technology Co., Ltd. is eligible to a preferential income tax rate of 15% as a High New Technology Enterprise from 2018 to 2020 and was thus entitled to a preferential tax rate of 15% from 2018 to 2020.

The income tax expense for the period can be reconciled to the profit before income tax expense per the interim condensed consolidated statements of profit or loss and other comprehensive income as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before income tax expense	**31,034**	31,898
Tax calculated at the rates applicable to profits in the tax jurisdictions concerned	**7,759**	7,975
Tax rate differentials	**892**	364
Tax effect of expenses not deductible for tax purposes	**1,883**	1,205
Tax effect of income not taxable for tax purpose	**(4)**	–
Effect attributable to the additional tax deduction at preferential tax rate	**(4,212)**	(4,465)
Deferred tax on undistributed earnings of PRC subsidiaries	**1,995**	2,436
Overprovision in prior year	**(1,337)**	–
Income tax expense	**6,976**	7,515

In addition to the amount charged to the other comprehensive income, deferred tax of RMB458,000 relating to the change in fair value and disposal gains of the financial assets for the period ended 30 June 2018, which has been charged to other comprehensive income.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

10. OTHER COMPREHENSIVE INCOME

	Before-tax amount RMB'000	Tax effect RMB'000	Net-of-tax amount RMB'000
Six months ended 30 June 2019 (Unaudited)			
Exchange differences on translation of operations outside the PRC	**255**	**–**	**255**
Other comprehensive income	**255**	**–**	**255**

	Before-tax amount RMB'000	Tax effect RMB'000	Net-of-tax amount RMB'000
Six months ended 30 June 2018 (Unaudited)			
Equity investment at fair value through other comprehensive income:			
— net movement in fair value reserve	3,055	(458)	2,597
— transferred from deferred tax liabilities	3,352	–	3,352
Exchange differences on translation of operations outside the PRC	(179)	–	(179)
Other comprehensive income	6,228	(458)	5,770

11. DIVIDENDS

The Directors do not recommend or declare the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

12. EARNINGS PER SHARE

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

	Six months ended 30 June 2019 (Unaudited)	Six months ended 30 June 2018 (Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share (RMB$'000)	**24,058**	24,383
Number of share		
Weighted average number of ordinary shares *(note)*	**406,767,956**	374,999,996

Note:

For the six months ended 30 June 2019, the calculation of basic earnings per share is based on the profit attributable to the owners of the Company of RMB24,058,000 and the weighted average number of 406,767,956 ordinary shares.

For the six months ended 30 June 2018, the calculation of the basic earnings per share is based on the profit for the period attributable to owners of the Company of RMB24,383,000 and on the basis of 374,999,996 shares of the Company in issue, which represents the number of shares of the Company after the capitalisation issue (note 19(e)) as if these shares issued had been issued on 1 January 2018.

Diluted earnings per share are same as the basic earnings per share as there is no dilutive potential ordinary shares in existence during the six months ended 30 June 2019 and 2018.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 3.

During the six months ended 30 June 2019, the Group has no new lease agreement.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2019, the Group acquired property, plant and equipment with a total cost of RMB30,000 (six months ended 30 June 2018: RMB693,000).

In addition, there was no disposal during the six months ended 30 June 2019. The Group disposed certain of its property, plant and equipment with a carrying amount of approximately RMB3,000 which resulted in a disposal gain of approximately RMB7,000 for the six months ended 30 June 2018.

At 30 June 2019 and 31 December 2018, land and buildings with carrying amounts of RMB77,871,000 and RMB67,819,000, respectively were pledged as collateral for the Group's bank borrowings (see Note 18).

14. TRADE RECEIVABLES

	As at 30 June 2019 ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Trade receivables	**81,402**	82,194
Less: allowance for impairment of trade receivables	**(1,022)**	(825)
	80,380	81,369

All of the trade receivables are expected to be recovered within one year.

The Group allows credit periods ranging from 60 to 120 days to its customers. Before accepting any new customer, the Group assesses the potential customer's credit quality. Credit term granted to customers is reviewed by the Group regularly.

The ageing analysis of trade receivables at the end of each reporting period, net of impairment losses, based on invoice date is as follows:

	As at 30 June 2019 ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
0 – 30 days	**43,517**	44,032
31 – 60 days	**35,880**	32,368
61 – 90 days	**983**	4,960
Over 90 days	**–**	9
	80,380	81,369

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

14. TRADE RECEIVABLES *(Continued)*

The Group applies the simplified approach to provide for expected credit loss prescribed by HKFRS9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the ageing.

15. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Deposits	**280**	279
Prepayments	**397**	4,197
Other receivables	**140**	176
	817	4,652
Less: allowance for impairment of other receivables	**(4)**	(4)
	813	4,648

16. TRADE PAYABLES

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**26,475**	31,612

The credit terms of trade payables vary according to the terms agreed with different suppliers, normally range from 30 days to 60 days. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade payables as at 30 June 2019 and 31 December 2018 as follows:

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 – 30 days	**26,475**	31,612
31 – 60 days	**–**	–
61 – 90 days	**–**	–
Over 90 days	**–**	–
	26,475	31,612

The trade payables are short-term and hence the carrying values of the Group's trade payables are considered to be a reasonable approximation of fair value.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

17. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited)
Salaries payables	**1,193**	1,298
Accruals and other payables	**5,195**	7,813
Financial liabilities measured at amortised cost	**6,388**	9,111
Other tax payables	**2,506**	2,279
	8,894	11,390

18. BORROWINGS

	As at 30 June 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited)
Bank borrowings:		
— Secured (ii), (iii) & (v)	**52,250**	64,250
	52,250	64,250
Other borrowing:		
— Unsecured (iv) & (v)	**–**	9,638
	52,250	73,888

Total bank and other borrowings were scheduled to repay as follows:

	As at 30 June 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited)
On demand or within 1 year	**52,250**	73,888
After 1 year but within 2 years	**–**	–
After 2 year but within 5 years	**–**	–
After 5 years	**–**	–
	52,250	73,888

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

18. BORROWINGS *(Continued)*

(i) The bank borrowings with variable interest rates was ranging from 5.68% to 5.95% and 5.16% to 5.87% per annum for the six months ended 30 June 2019 and 2018 respectively.

The other borrowing with fixed interest rates was 10.0% per annum for the six months ended 30 June 2019 and 2018.

(ii) The secured bank borrowings are secured by the assets of the Group, the carrying amounts of the assets are as follows:

	As at 30 June 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited)
Land and buildings *(Note 13)*	**77,871**	67,819
Investment properties	**14,260**	15,119
Prepaid land lease payments	**–**	13,009
	92,131	95,947

(iii) As at 30 June 2019 and 31 December 2018, guarantees were provided by the controlling shareholders and the family members of the controlling shareholders for the bank borrowings.

(iv) As at 31 December 2018, guarantees were provided by the controlling shareholders for the unsecured other borrowing.

(v) All the bank borrowings were denominated in RMB and other borrowing was denominated in HK dollars.

(vi) A summary of facilities granted by banks and the amounts utilised by the Group at 30 June 2019 and 31 December 2018 set out below:

	As at 30 June 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited)
Amounts granted	**52,250**	64,250
Amounts utilised	**52,250**	64,250

The securities of the banking facilities were the same as mentioned in (ii).

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

19. SHARE CAPITAL

The Company	*Notes*	**As at 30 June 2019** Number of shares (Unaudited)	**As at 30 June 2019** Nominal value RMB'000 (Unaudited)	As at 31 December 2018 Number of shares (Audited)	As at 31 December 2018 Nominal value RMB'000 (Audited)
Authorised:					
Initial authorised share capital upon incorporation of HK$0.1 each	(a)	**3,800,000**	**323**	3,800,000	323
Increase in share capital upon capitalisation of HK$0.1 each	(d)	**996,200,000**	**85,237**	–	–
		1,000,000,000	**85,560**	3,800,000	323
Issued and fully paid share of HK$0.1 each					
At 1 January		**100**	**–***	70	–*
Allotment of shares	(b)	**–**	**–**	10	–*
Allotment of shares	(c)	**–**	**–**	20	–*
Issue of ordinary shares upon capitalisation	(e)	**374,999,900**	**32,086**	–	–
Issue of ordinary shares upon global offering and placing	(f)	**125,000,000**	**10,938**	–	–
At 30 June 2019/31 December 2018		**500,000,000**	**43,024**	100	–*

* The amount is less than RMB1,000

Notes:

(a) The Company was incorporated on 31 July 2017 with an initial authorised share capital of HK$380,000 divided into 3,800,000 shares of a par value of HK$0.1 each. On the date of incorporation, 70 ordinary shares of HK$0.1 were allotted and issued by the Company.

(b) On 12 January 2018, 10 ordinary shares of HK$0.1 were allotted and issued by the Company.

(c) On 17 January 2018, 20 ordinary shares of HK$0.1 were allotted and issued by the Company.

(d) Pursuant to written resolutions passed on 2 April 2019, the authorised share capital of our Company was increased from HK$380,000 divided into 3,800,000 ordinary shares of par value HK$0.1 each to HK$100,000,000 divided into 1,000,000,000 ordinary shares of par value HK$0.1 each, by the creation of 996,200,000 ordinary shares of par value HK$0.1 each.

(e) Pursuant to written resolutions passed on 2 April 2019, conditional on the share premium account of the Company having been credited as a result of the allotment and issue of the offer shares pursuant to the global offering, the Directors were authorised to allot and issue a total of 374,999,900 shares credited as fully paid at par by way of capitalisation of the sum of HK$37,499,990 (equivalent to RMB32,086,000) standing to the credit of the share premium account of the Company, and the shares to be allotted and issued pursuant to the resolution shall rank pari passu in all respects with the existing issued shares.

(f) On 16 May 2019, 125,000,000 ordinary shares of HK$0.1 each of the Company were issued at a price of HK$1 by way of global offering. On the same date, the Company's ordinary shares were listed on the Stock Exchange. The proceeds of HK$12,500,000 (equivalent to RMB10,938,000) representing the par value of the ordinary shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$112,500,000 (equivalent to RMB98,667,000), before issuing expenses of approximately RMB14,697,000, were credited to share premium account.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

20. OPERATING LEASE COMMITMENT AND ARRANGEMENT

The Group as lessee

As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June 2019 **RMB'000** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
— Within one year	**–**	1,014
— In the second to fifth year, inclusive	**–**	287
— After five years	**–**	–
	–	1,301

The Group leases a premise and motor vehicles under operating lease. The leases run for an initial period of 1 to 3 years. The leases do not include any contingent rental.

The Group as lessor

The Group leases out certain investment properties under operating leases. The leases run for an initial period of 1 to 6 years. None of these leases include contingent rental. As at 30 June 2019 and 31 December 2018, the total future minimum lease payments receivable under operating leases in respect of investment properties are as follows:

	As at 30 June 2019 **RMB'000** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
— Within one year	**459**	459
— In the second to fifth year, inclusive	**–**	–
— After five years	**–**	–
	459	459

21. CAPITAL COMMITMENTS

As at 30 June 2019 and 31 December 2018, capital commitments not provided for in the financial statements were as follows:

	As at 30 June 2019 **RMB'000** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Capital expenditure of the Group contracted for but not provided in the interim condensed consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	**3,096**	4,279

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

22. MATERIAL RELATED PARTY TRANSACTIONS

Other than disclosed in Notes 8, the Group entered into the following material related party transactions for the six months ended 30 June 2019 and 2018.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Directors, is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term employee benefits	**696**	341
Retirement scheme contribution	**23**	21
	719	362

(b) Financial guarantees

The details of guarantees provided by related parties to the Group are set out in Note 18.

Management Discussion and Analysis

BUSINESS REVIEW

The Company and its subsidiaries (collectively, the "Group") are a leading sintered NdFeB magnetic material manufacturer in Fujian Province, the People's Republic of China (the "PRC"). NdFeB magnet, also known as neodymium magnet, is a permanent magnet that is mainly made from an alloy of neodymium, iron and boron. Sintered NdFeB magnets are manufactured by the technology of sintering, a process of magnetically aligning alloy powder into dense blocks through heat or pressure. The Group are principally engaged in the design, development, production and sale of sintered NdFeB magnetic materials under its own brand "磁王". We offer our customers different series of sintered NdFeB magnetic materials categorised under the national standard of GBT13560–2009, namely N series, M series, H series, SH series, UH series and EH series. Our products can be assembled with different motors and/or electronic products which can then be used in end-use industries such as electroacoustic products, variable-frequency home appliances, energy-saving elevators, wind turbine generators, industrial robots and new energy vehicles.

In the first half of 2019, the Group recorded revenue of approximately RMB202.7 million, up by 8.7% compared to the same period last year. The increase is primarily due to the fact that the Group continued to cooperate closely and win orders from major customers. This resulted in consistent growth in both sales and sales volume, thus consolidating the Group's position in the industry. Profit attributable to the owners of the Company was approximately RMB24.1 million, down by approximately 1.2% year on year mainly due to increase in listing expenses.

INDUSTRY REVIEW

According to the National Bureau of Statistics, China's gross domestic product grew 6.3% year-on-year in the first half of the year, and the marginal growth momentum weakened due to a range of factors, including increased international trade disputes and rising geopolitical risks. China's economy has generally been running smoothly, and the transformation and upgrading of the national economy has continued to advance.

In recent years, the Chinese government has introduced measures, policies and regulations to promote the development of the rare earth permanent magnet industry, including sintered ferrite boron magnetic materials. According to the New Materials Industry "13th Five-Year Development Plan" (2016–2020) (《新材料產業「十三五」發展規劃》(2016年至2020年)) issued in 2016, the sintered NdFeB magnetic materials used in several industries have been considered a priority development series, while rare earth functional materials such as high-performance permanent magnets have been identified as the most important strategic materials. In addition, according to the New Materials Industry Development Guide (《新材料產業發展指南》) issued in 2017, development plans have been implemented for the new materials industry, including the development of a number of high-end new materials to meet the needs of the high-performance equipment manufacturing and energy-saving industries, as well as research on major processing technologies.

Energy conservation and environmental protection technology industry demand is growing: China focuses on the development of energy-saving and environmental protection technology industry, focusing on reducing the total amount of carbon emissions. Energy-saving and environmental protection technology industry (including energy-saving elevators and new energy vehicles) are expected to help drive the growth of demand for sintered ferrite-boron magnetic materials and account for a large share of the total consumption of sintered ferrite-boron magnetic materials. At present, China focuses on the development of a low-carbon economy, which promotes the development of energy-saving and environmental protection technologies such as wind power and new energy vehicles. At the same time, the Chinese government is planning to increase the penetration of energy-saving and environmentally friendly technology industries in the existing industrial structure to reduce carbon emissions and better protect the environment in the coming years. As a result, the trend of growing in the field of festival environmental protection technology is likely to continue in the future. These energy-saving and environmental protection technology applications (e.g. wind power, energy-saving elevators, variable frequency household appliances, new energy vehicles, etc.) are downstream consumers of sintered ferrite-boron magnetic materials (especially high-performance sintered ferrite-boron magnetic materials) and are expected to increase the demand for sintered ferrite-boron magnetic materials .

With the rise of China's gross domestic product and the Chinese government's emphasis and support for energy-saving and environmental protection industries, the industrial structure expansion of the sintered NdFeB magnetic materials industry will be further promoted. This will provide better opportunities and more room for development for experienced and fully skilled NdFeB magnetic materials suppliers.

Management Discussion and Analysis

PROSPECT

In light of the development of the industry and the direction of the Chinese government, and in order to ensure the achievement of the full-year operational objectives, to grasp new opportunities and meet future challenges, the Group's development priorities for the second half of the year include the following:

1. Optimize the production process and improve production capacity. The Group will step up equipment replacement, addition and upgrading, and step up research and development of new production technologies and cost-cutting production processes.

2. Optimize the business structure. With the successful listing of the Company, the credibility of the Company for the Group's customer review has also been improved. The Group will deepen the relationship between users of high-end products to gain a higher market share, so as to optimize the business structure and continue to act in line with the development direction of the Chinese government.

3. Rational use of capital. Through capital injection, the Group's operational capacity and market resilience can be enhanced. The Group will optimize internal control, and increase quality customers' intention to cooperate with us. Through the above, the Group can promote its products to more higher-end industries and industry chains.

FINANCIAL REVIEW

Revenue

The Group’s revenue for the six months ended 30 June 2019 amounted to approximately RMB202.7 million, representing an increase of approximately RMB16.2 million, or 8.7% compared to approximately RMB186.5 million for the six months ended 30 June 2018. Among which, revenue derived from sale of finished products increased by approximately 7.3% from approximately RMB145.6 million for the six months ended 30 June 2018 to approximately RMB156.2 million for the six months ended 30 June 2019; revenue derived from sale of rough cast products increased by approximately 14.0% from approximately RMB40.8 million for the six months ended 30 June 2018 to approximately RMB46.5 million for the six months ended 30 June 2019.

Gross Profit and Gross Profit Margin

The gross profit of the Group for the six months ended 30 June 2019 amounted to approximately RMB 56.9 million, representing an increase of approximately RMB4.2 million, or 8.0% compared to approximately RMB52.7 million for the six months ended 30 June 2018. While the Group’s gross profit margin was approximately 28.0% for the six months ended 30 June 2019 as compared to approximately 28.2% for the six months ended 30 June 2018.

Other income and other net gains

The other income and other net gains of the Group for the six months ended 30 June 2019 amounted to approximately RMB1.6 million, representing an increase of approximately RMB0.8 million or 100.8% compared to approximately RMB0.8 million for the six months ended 30 June 2018. The increase was mainly due to increase in one-off government subsidies for the six months ended 30 June 2019.

Management Discussion and Analysis

Selling and distribution expenses

Selling and distribution expenses amounted to approximately RMB2.2 million and RMB2.2 million for the six months ended 30 June 2019 and 2018 respectively. There is no substantial change in the amount of selling and distribution expenses. The combined effects of (i) an increase of approximately RMB139,000 in transportation fees as a result of the increase in the overall sales volume of our products and (ii) a decrease of approximately RMB146,000 in salaries and welfare expenses due to the effective cost control of the Group also add to the stability of selling and distribution expenses. Selling and distribution expenses as a percentage of the revenue remained stable, which was approximately 1.1% for the six months ended 30 June 2019 as compared to approximately 1.2% for the six months ended 30 June 2018.

Administrative expenses

The administrative expenses of the Group for the six months ended 30 June 2019 amounted to approximately RMB22.6 million, representing an increase of approximately RMB6.1 million or 37.0% compared to approximately RMB16.5 million for the six months ended 30 June 2018. The increase was mainly due to the one-off listing expenses of approximately RMB7.5 million for the six months ended 30 June 2019 (2018: approximately RMB3.1 million) and increase in donation to charity of approximately RMB0.9 million.

Finance costs

The Group recorded approximately RMB2.4 million (2018: approximately RMB2.4 million) of finance costs for the six months ended 30 June 2019. The finance costs are the interest expenses of bank and other borrowings and interest expenses of lease liabilities resulted from the new adoption of HKFRS 16 effective from 1 January 2019.

Profit for the period

As a result of the foregoing, profit for the period decreased by approximately 1.2% from approximately RMB24.4 million for the six months ended 30 June 2018 to approximately RMB24.1 million for the six months ended 30 June 2019. Excluding the one-off listing expenses of approximately RMB7.5 million for the six months ended 30 June 2019 (2018: approximately RMB3.1 million), the Group would have an adjusted net profit of approximately RMB31.6 million for the six months ended 30 June 2019 (2018: approximately RMB27.5 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had cash and cash equivalents of approximately RMB167.6 million (31 December 2018: approximately RMB56.1 million). The increase was primarily due to the net proceeds from the listing in May 2019.

For the first half year of 2019, the Company's net cash generated from operating activities amounted to approximately RMB41.3 million, while the net cash generated in operating activities amounted to approximately RMB21.1 million in the same period of the previous year. The increase in net cash generated from operating activities was mainly due to changes in working capital and payment of approximately RMB9.1 million for the income tax arising from the disposal of equity investment at fair value through other comprehensive income for the six months ended 30 June 2018.

For the first half year of 2019, the Company's net cash generated from investing activities amounted to approximately RMB96,000, while the net cash generated from investing activities amounted to approximately RMB55.7 million in the same period of the previous year. The decrease in net cash generated from investing activities was mainly due to one-off proceeds received from disposal of equity investment at fair value through other comprehensive income amounted to approximately RMB59.5 million for the six months ended 30 June 2018.

Management Discussion and Analysis

For the first half year of 2019, the Company's net cash generated from financing activities amounted to approximately RMB70.1 million, while the net cash generated in financing activities amounted to approximately RMB68.6 million in the same period of the previous year. The increase in net cash generated from financing activities was mainly due to net proceeds from the listing in May 2019.

Current ratio increased from 1.6 as at 31 December 2018 to 3.1 as at 30 June 2019, mainly due to increase in cash and cash equivalents and decrease in borrowings. Gearing ratio decreased from 36.1% as at 31 December 2018 to 16.1% as at 30 June 2019, mainly due to increase in share capital as a result of the listing and repayment of bank and other borrowings. The gearing ratio is calculated based on total debt divided by total equity at the end of the respective period. Net debt to equity ratio is not applicable as at 30 June 2019 (31 December 2018: 8.9%) due to the fact that cash and cash equivalents are larger than borrowings. Net debt is calculated as total borrowings and amounts due to shareholders less cash and cash equivalents. For details of the Group's borrowings, please refer to note 18 to the notes to the interim condensed consolidated financial statements.

The Directors believe that the Group is in a healthy financial position to expand its business and achieve its business objectives.

TREASURY POLICIES

The Group adopts a prudent financial management approach for its treasury policies. The Group strives to reduce its exposure to credit risks by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements from time to time.

FOREIGN EXCHANGE EXPOSURE

The functional currencies of our operations, assets and liabilities are mostly denominated in RMB. Therefore, we were not exposed to any significant foreign exchange risk, except for our Hong Kong Dollar ("**HK$**") denominated bank balances and net proceeds from the listing that are denominated in HK$. The Group currently does not have a foreign currency hedging policy. The Group did not engage in any derivatives agreements and did not commit to any financial instruments to hedge its foreign exchange exposure throughout the six months ended 30 June 2019. The management will closely monitor foreign currency exposure and will consider hedging significant foreign currency exposure should such need arises.

INTERIM DIVIDEND

The Directors resolved not to declare any interim dividend for the six months ended 30 June 2019 (2018: Nil).

CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no significant contingent liabilities (31 December 2018: Nil).

Management Discussion and Analysis

PLEDGE OF ASSETS

For details of pledge of assets, please refer to note 18 of the notes to the interim condensed consolidated financial statements.

CAPITAL COMMITMENTS

The Group's capital commitments as at 30 June 2019 were approximately RMB3,096,000, which were relating to the purchase of property, plant and equipment related to its production facilities (31 December 2018: approximately RMB4,279,000).

Save as disclosed above and in note 21 of the notes to the interim condensed consolidated financial statements, there were no other significant capital commitments.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

There was no significant investments, material acquisitions or disposal of subsidiaries, associates and joint ventures by the Group for the six months ended 30 June 2019.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group has 202 employees (31 December 2018: 201 employees). The employees of the Group are remunerated in accordance with their education background, position, experience and performance. In general, the Group determines employee salaries based on each employee's qualifications, position and seniority. Performance of individual employee is also reviewed periodically to determine adjustments to employee salaries. Apart from the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses are also awarded to employees according to the assessment of individual performance.

The emoluments of the Directors are determined by the Board after recommendation from the remuneration committee of the Company, having considered factors including the Group's financial performance, educational background, qualifications, experience and performance of the Directors, etc.

Management Discussion and Analysis

USE OF PROCEEDS FROM THE LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on 16 May 2019 (the "**Listing Date**"). Based on the offer price of HK$1.00 per offer share, the net proceeds from the global offering received by the Company, after deducting the underwriting fees and commissions and other estimated offering expenses in relation to the global offering borne by the Company, were approximately HK$80.9 million. The Company will continue to apply the net proceeds in accordance with the manner disclosed in the prospectus of the Company dated 30 April 2019 ("**Prospectus**"). For more details of the listing, please refer to the Prospectus.

As at 30 June 2019, approximately HK$16.7 million of the net proceeds has been used by the Group. The unutilised proceeds were deposited with the licensed bank in Hong Kong and the PRC. Set out below is a summary of the utilisation of the net proceeds:

		Original plan allocation of net proceeds	**Actual utilised amount as at 30 June 2019**	**Unutilised amount as at 30 June 2019**
	%	*HK$ million*	*HK$ million*	*HK$ million*
For the expansion of production capacity and the enhancement of operational efficiency	48.3%	39.1	–	39.1
For modifying and optimising production process and technology, and implementing key research and development projects	17.4%	14.1	0.7	13.4
For repayment of part of the borrowings	31.3%	25.3	13.6	11.7
For working capital and general corporate purposes	3.0%	2.4	2.4	–
	100.0%	80.9	16.7	64.2

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("**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 which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), are set out below:

Name of Director	Capacity	Long position/ Short position	Number of shares/ underlying shares held	Approximate percentage of the issued share capital of the Company
Mr. Lu Qingxing	Interest in a controlled corporation *(Note 1)*	Long position	210,000,000	42.0%
	Interests held jointly with another person *(Note 1)*	Long position	90,000,000	18.0%
Mr. Lyu Zhufeng	Interest in a controlled corporation *(Note 2)*	Long position	90,000,000	18.0%
	Interests held jointly with another person *(Note 2)*	Long position	210,000,000	42.0%

Notes:

1. Mr. Lu Qingxing owns the entire issued share capital of Star Lv Limited ("**Star Lv**"), which in turns holds 210,000,000 shares of the Company. By virtue of the SFO, Mr. Lu Qingxing is deemed to be interested in such shares held by Star Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv Limited ("**Wind Lv**"), entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their shares in the Company. As such, Mr. Lu Qingxing is deemed to be interested in the 90,000,000 shares which are held by Wind Lv (which is in turn held as to 100% by Mr. Lyu Zhufeng).

2. Mr. Lyu Zhufeng owns the entire issued share capital of Wind Lv, which in turns holds 90,000,000 shares of the Company. By virtue of the SFO, Mr. Lyu Zhufeng is deemed to be interested in such shares held by Wind Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their shares in the Company. As such, Mr. Lyu Zhufeng is deemed to be interested in the 210,000,000 shares which are held by Star Lv (which is in turn held as to 100% by Mr. Lu Qingxing).

Save as disclosed above, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2019.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that other than the interests of the Directors and the chief executives of the Company, the following shareholders had notified the Company of relevant interests or short position in shares and underlying shares of Company as follows:

Name	Capacity	Long position/ Short position	Number of shares/ underlying shares held	Approximate percentage of the issued share capital of the Company
Star Lv	Beneficial owner *(Note 1)*	Long position	210,000,000	42.0%
	Interests held jointly with another person *(Note 1)*	Long position	90,000,000	18.0%
Wind Lv	Beneficial owner *(Note 2)*	Long position	90,000,000	18.0%
	Interests held jointly with another person *(Note 2)*	Long position	210,000,000	42.0%
Many Idea Limited ("**Many Idea**")	Beneficial owner *(Note 3)*	Long position	30,000,000	6.0%
Mr. Liu Jianhui	Interest in a controlled corporation *(Note 3)*	Long position	30,000,000	6.0%
Ms. Yao Jingjing	Interest of spouse *(Note 4)*	Long position	90,000,000	18.0%

Notes:

1. Star Lv is wholly-owned by Mr. Lu Qingxing. By virtue of the SFO, Mr. Lu Qingxing is deemed to be interested in such shares held by Star Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their shares in the Company. As such, Star Lv is deemed to be interested in the 90,000,000 shares which are held by Wind Lv (which is in turn held as to 100% by Mr. Lyu Zhufeng).

2. Wind Lv is wholly-owned by Mr. Lyu Zhufeng. By virtue of the SFO, Mr. Lyu Zhufeng is deemed to be interested in such shares held by Wind Lv. Further, Mr. Lu Qingxing, Mr. Lyu Zhufeng, Star Lv and Wind Lv entered into a deed of concert parties to acknowledge and confirm that they are parties acting in concert in relation to the voting rights attaching to their shares in the Company. As such, Wind Lv is deemed to be interested in the 210,000,000 shares which are held by Star Lv (which is in turn held as to 100% by Mr. Lu Qingxing).

3. Many Idea is wholly-owned by Mr. Liu Jianhui. By virtue of the SFO, Mr. Liu Jianhui is deemed to be interested in such shares held by Many Idea.

4. Ms. Yao Jingjing is the spouse of Mr. Lyu Zhufeng. Therefore, under the SFO, Ms. Yao Jingjing is deemed to be interested in the shares of the Company in which Mr. Lyu Zhufeng is interested in.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2019.

Other Information

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "**Share Option Scheme**") pursuant to the resolution of the then shareholders passed on 2 April 2019. The purposes of the Share Option Scheme are to enable the Group to provide rewards to selected participants for their contributions to the Group and to promote the success of the business of the Group. The Share Option Scheme will help motivate the participants to optimize their future contributions and attract and retain or otherwise maintain on-going relationships with the participants whose contributions are beneficial to the performance, growth or success of the Group.

No share option has been granted by the Company under the Share Option Scheme since the Listing Date and up to the date of this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date and up to 30 June 2019.

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of the shareholders' value.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. However, Mr. Lyu Zhufeng 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 the consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group. Besides, with three independent non-executive Directors out of a total of five Directors in the Board, there will be sufficient independent voice within the Board to protect the interests of the Company and the shareholders as a whole. Therefore, the Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman and chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Save as disclosed above, the Company was in compliance with all code provisions set out in the CG Code during the period from the Listing Date and up to 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standards as set out in the Model Code since the Listing Date and up to 30 June 2019.

Other Information

REVIEW OF THE INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") on 2 April 2019 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3.3 of the CG Code. The Audit Committee consists of three members, namely Mr. Fan Chun Wah, Andrew, Mr. Lu Qingxing and Mr. Yan Aru. Mr. Fan Chun Wah, Andrew is the chairman of the Audit Committee. The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019.

EVENTS AFTER THE END OF THE REPORTING PERIOD

There has been no significant events occurring after the end of the reporting period up to the date of this report.

By order of the Board
Universal Star (Holdings) Limited
Lyu Zhufeng
Chairman

Hong Kong, 28 August 2019