



UNIVERSAL STAR 2020 INTERIM REPORT

UNIVERSAL STAR (HOLDINGS) LIMITED

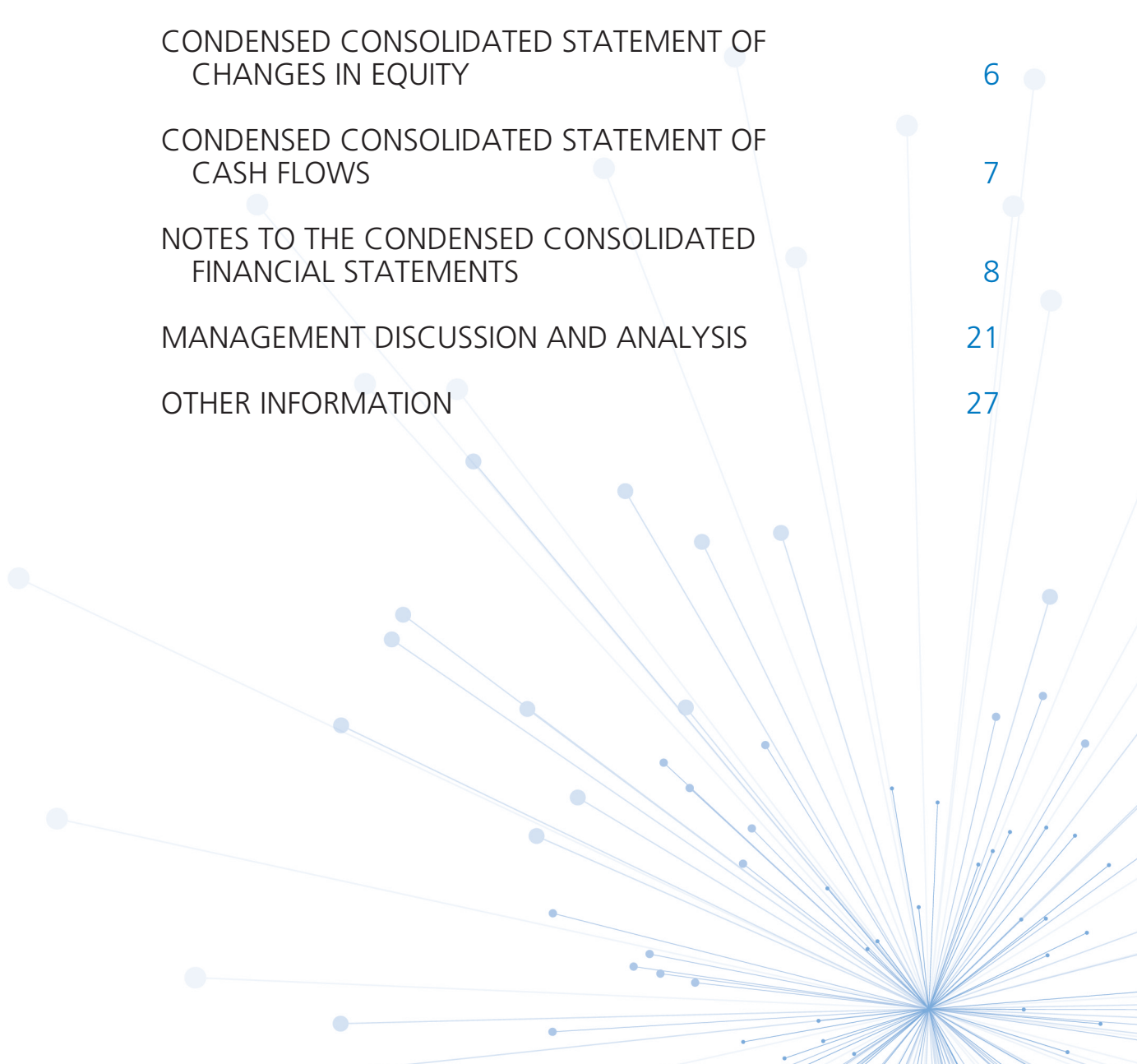
星宇(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2346

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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

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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

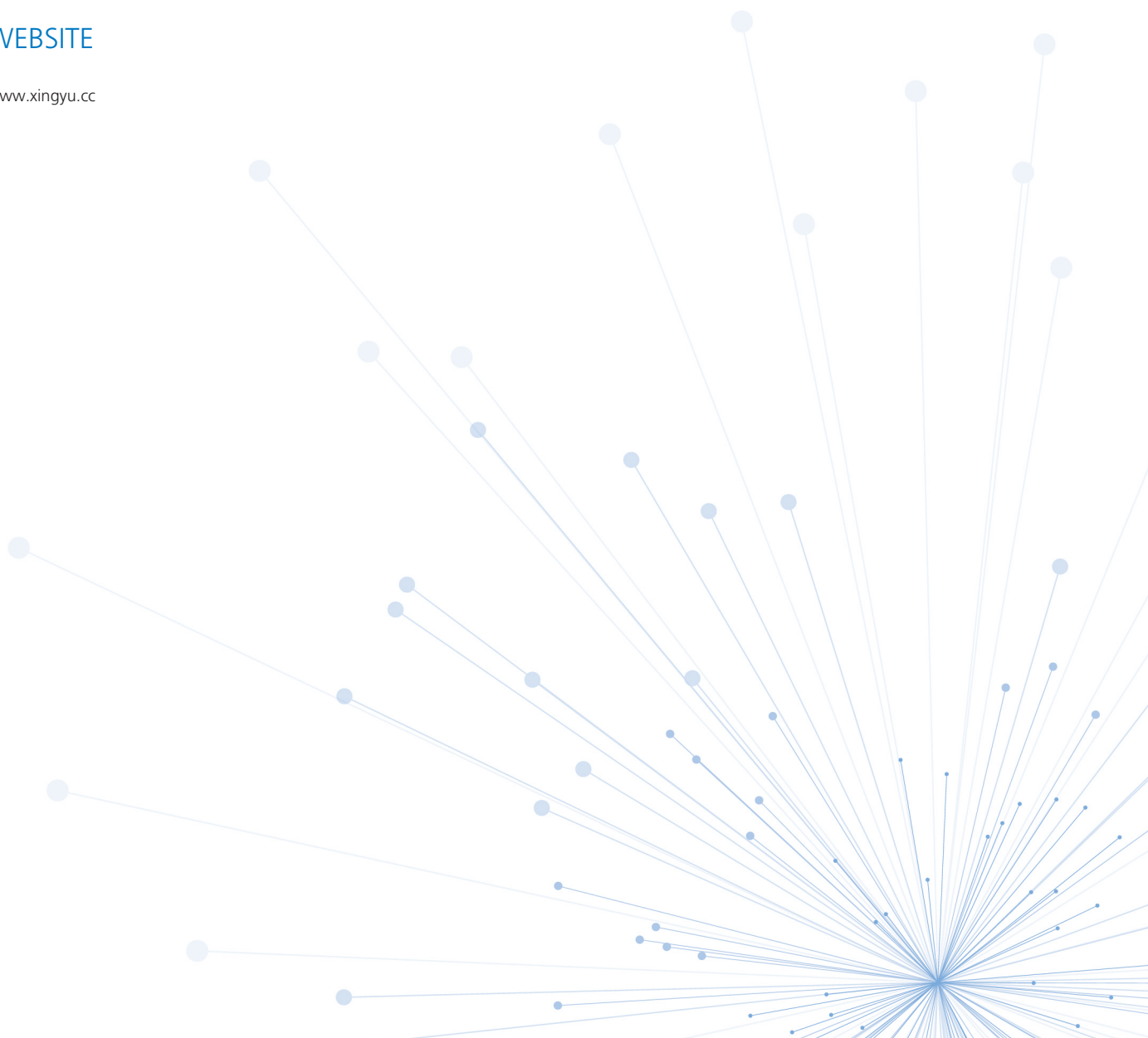
Industrial and Commercial Bank of China Limited,
Ningde City Jiaocheng Branch

STOCK CODE

2346

WEBSITE

www.xingyu.cc



Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	5	153,537	202,731
Cost of sales		(114,575)	(145,877)
Gross profit		38,962	56,854
Other income and other net gains	6	47,497	1,596
Selling and distribution expenses		(1,628)	(2,218)
Administrative expenses		(25,092)	(22,636)
Expected credit loss on financial assets		(2,218)	(197)
Finance costs	7	(799)	(2,365)
Profit before income tax expense	8	56,722	31,034
Income tax expense	9	(9,642)	(6,976)
Profit for the period		47,080	24,058
Other comprehensive income, net of tax			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of operations outside the People's Republic of China ("PRC")		(45)	255
Other comprehensive income for the period	10	(45)	255
Total comprehensive income for the period		47,035	24,313
Earnings per share			
Basic and diluted	12	RMB9.4 cents	RMB6.0 cents

Condensed Consolidated Statement of Financial Position

AS AT 30 JUNE 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	117,229	118,085
Prepayments		12,348	17,223
		129,577	135,308
Current assets			
Inventories		44,976	38,617
Trade receivables	14	116,393	89,114
Deposits, prepayments and other receivables	15	11,819	934
Cash and cash equivalents		170,406	180,046
		343,594	308,711
Non-current assets classified as held for sale		–	16,519
		343,594	325,230
Current liabilities			
Trade payables	16	1,208	23,091
Accruals and other payables	17	33,784	46,233
Lease liabilities		727	216
Income tax payable		798	1,875
Borrowings	18	26,000	26,000
		62,517	97,415
Net current assets		281,077	227,815
Total assets less current liabilities		410,654	363,123
Non-current liabilities			
Deferred tax liabilities		9,029	8,906
Lease liabilities		373	–
		9,402	8,906
Net assets		401,252	354,217
EQUITY			
Share capital and reserves			
Share capital	19	43,024	43,024
Reserves		358,228	311,193
Total equity		401,252	354,217

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Share capital RMB'000	Share premium* RMB'000	Other reserves* RMB'000 (Note a)	Reserves			Total reserves RMB'000	Total equity RMB'000
				Statutory reserves* RMB'000 (Note b)	Exchange reserves* RMB'000 (Note c)	Retained profits* RMB'000		
At 1 January 2019 (audited)	–**	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(c))	32,086	(32,086)	–	–	–	–	(32,086)	–
Shares issued pursuant to the public offering and placing (note 19(d))	10,938	98,667	–	–	–	–	98,667	109,605
Transactions cost attributable to the public offering and placing (note 19(d))	–	(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
At 1 January 2020 (audited)	43,024	115,016	220	29,895	936	165,126	311,193	354,217
Profit for the period	–	–	–	–	–	47,080	47,080	47,080
Other comprehensive income for the period	–	–	–	–	(45)	–	(45)	(45)
Total comprehensive income for the period	–	–	–	–	(45)	47,080	47,035	47,035
At 30 June 2020 (unaudited)	43,024	115,016	220	29,895	891	212,206	358,228	401,252

* The total of these amounts as at the reporting dates represents “Reserves” in the 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) Exchange reserves comprise all relevant translation differences arising from the translation of the financial statements of operations with functional currency other than RMB.

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cash flows from operating activities		
<i>Net cash (used in)/generated from operating activities</i>	(41,805)	41,316
Cash flows from investing activities		
Purchase of property, plant and equipment	(251)	(30)
Prepayments for property, plant and equipment	(5,315)	–
Refund from prepayment for property, plant and equipment	6,000	–
Proceeds from disposal of property, plant and equipment	5,223	–
Interest income received	192	126
<i>Net cash generated from investing activities</i>	5,849	96
Cash flows from financing activities		
Proceeds from borrowings	–	16,800
Repayment of borrowings	–	(38,299)
Payment of lease liabilities	(344)	(596)
Repayment to shareholders	–	(438)
Advance from a director	1,827	–
Interest paid for borrowings	(776)	(2,307)
Temporary receipts from subscription	25,657	–
Shares issued pursuant to the public offering and placing	–	109,605
Transaction costs attributable to the public offering and placing	–	(14,697)
<i>Net cash generated from financing activities</i>	26,364	70,068
Net (decrease)/increase in cash and cash equivalents	(9,592)	111,480
Cash and cash equivalents at beginning of the period	180,046	56,071
Effect of foreign exchange rate changes	(48)	–
Cash and cash equivalents at end of the period	170,406	167,551

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 May 2019. The address of the 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 PRC.

The principal activity of the Company is investment holding. The principal activities of the Company and its subsidiaries (collectively referred to as 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 (the “**Directors**”) of the Company, the Company’s immediate and ultimate holding company is Star Lv Limited, a company incorporated in the British Virgin Islands (“**BVI**”) with limited liability.

2 BASIS OF PREPARATION AND PRESENTATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**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 (the “**Listing Rules**”). These condensed consolidated financial statements were approved for issue by the board (the “**Board**”) of Directors on 31 August 2020.

These condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2019 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 2020. Details of any changes in accounting policies are set out in note 3. The adoption of the new and revised Hong Kong Financial Reporting Standards (the “**HKFRSs**”) have no material effect on these 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 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.

The measurement basis used in the preparation of the condensed consolidated financial statements is the historical cost basis. These condensed consolidated financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated. Items included in the condensed consolidated financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The functional currency of the Company and certain of its subsidiaries is Hong Kong dollars (“**HK\$**”). As the major operations of the Group are within the PRC, the Group presents its consolidated financial statements in RMB, unless otherwise stated.

These 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 2019 annual financial statements. These 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 2019 consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2020.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendment to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

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 condensed consolidated financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In preparing these 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 2019 annual financial statements.

5 REVENUE AND SEGMENT REPORTING

The executive Director has been identified as the chief operating decision-maker of the Group (“**CODM**”) who reviews 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 considers 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 six months ended 30 June 2020 and 2019.

(ii) Geographical information

The Group’s revenue from external customers are divided into the following geographical location of customers:

	Six months ended 30 June	
	2020 RMB’000 (Unaudited)	2019 RMB’000 (Unaudited)
The PRC (place of domicile)	148,687	202,731
Asia Pacific (exclusive of the PRC)	4,850	—
	153,537	202,731

The Group’s non-current assets are all located in the PRC.

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

5 REVENUE AND SEGMENT REPORTING (Continued)

(iii) 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	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Primary geographical markets		
The PRC	148,687	202,731
Asia Pacific (exclusive of the PRC)	4,850	–
	153,537	202,731
Major products		
Finished products	129,452	156,202
Rough cast products	24,085	46,529
	153,537	202,731
Timing of revenue recognition		
Product transferred at a point in time	153,537	202,731

6 OTHER INCOME AND OTHER NET GAINS

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	192	126
Exchange losses, net	(7)	–
Government grants (Note)	19,045	630
Rental income generated from investment properties	281	840
Gain on disposal of property, plant and equipment and investment properties	28,162	–
Other net losses	(176)	–
	47,497	1,596

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

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

7 FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest charge on borrowings	776	2,343
Interest on lease liabilities	23	22
	799	2,365

8 PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories recognised as expenses	114,575	145,877
Research and development expenditure	14,684	5,573
Depreciation charge:		
— Owned property, plant and equipment	5,283	5,500
— Right-of-use-assets included within:		
— Land and buildings	608	516
— Investment properties	—	11
Depreciation of investment properties	—	585
Short-term leases expenses	—	75
Low-value assets leases expenses	9	5
Listing expenses	—	7,523
Staff costs (including Directors' emoluments):		
— Salaries, wages and other benefits	9,874	9,251
— Retirement scheme contribution	191	1,108
	10,065	10,359

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax		
Tax for the current period	9,877	6,318
Overprovision in prior period	(358)	(1,337)
Deferred tax		
Charged to profit or loss for the period	123	1,995
	9,642	6,976

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.

10 OTHER COMPREHENSIVE INCOME

	Before-tax amount <i>RMB'000</i>	Tax effect <i>RMB'000</i>	Net-of-tax amount <i>RMB'000</i>
Six months ended 30 June 2020 (Unaudited)			
Exchange differences on translation of operations outside the PRC	(45)	–	(45)
Other comprehensive income	(45)	–	(45)
	Before-tax amount <i>RMB'000</i>	Tax effect <i>RMB'000</i>	Net-of-tax amount <i>RMB'000</i>
Six months ended 30 June 2019 (Unaudited)			
Exchange differences on translation of operations outside the PRC	255	–	255
Other comprehensive income	255	–	255

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

11 DIVIDENDS

The Directors resolved not to declare any interim dividend for the six months ended 30 June 2020 (30 June 2019: 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	
	2020 (Unaudited)	2019 (Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share (RMB'000)	47,080	24,058
Number of shares		
Weighted average number of ordinary shares (note)	500,000,000	406,767,956

Note:

For the six months ended 30 June 2020, the calculation of basic earnings per share is based on the profit attributable to the owners of the Company of RMB47,080,000 and the weighted average number of 500,000,000 ordinary shares.

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.

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 2020 and 2019.

13 MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

The Group has entered into several leases for office during the six months ended 30 June 2020. Right-of-use assets amounted to approximately RMB1,200,000 has been recognised for the current period. 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 2020, the Group incurred expenditures on additions to property, plant and equipment with a total cost of RMB4,370,000 (six months ended 30 June 2019: RMB30,000).

The Group disposed certain of its property, plant and equipment with a carrying amount of approximately RMB542,000 which resulted in a disposal loss of approximately RMB478,000 for the six months ended 30 June 2020. There was no disposal during the six months ended 30 June 2019.

At 30 June 2020 and 31 December 2019, land and buildings with carrying amounts of RMB79,872,000 and RMB81,892,000, respectively were pledged as collateral for the Group's bank borrowings (see Note 18).

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

14 TRADE RECEIVABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade receivables	119,785	90,288
Less: allowance for impairment of trade receivables	(3,392)	(1,174)
	116,393	89,114

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

The Group allows credit periods ranging from 30 to 210 days (31 December 2019: 90 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 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 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
0-30 days	38,769	35,964
31-60 days	25,074	41,143
61-90 days	27,473	11,019
Over 90 days	25,077	988
	116,393	89,114

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.

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

15 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Deposits	319	310
Prepayments	10,686	294
Other receivables	813	334
Amount due from a related company (note)	5	–
Less: allowance for impairment of other receivables	(4)	(4)
	11,819	934

Note: The amount due from a related company was not trade related, and the balance was unsecured, interest-free and repayable on demand.

16 TRADE PAYABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade payables	1,208	23,091

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 2020 and 31 December 2019 as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
0–30 days	1,208	23,091
	1,208	23,091

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 Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

17 ACCRUALS AND OTHER PAYABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Salaries payables	1,837	1,831
Accruals and other payables	4,155	2,298
Amount due to a director (<i>note</i>)	1,827	–
Financial liabilities measured at amortised cost	7,819	4,129
Temporary receipts	25,656	40,000
Other tax payables	309	2,104
	33,784	46,233

Note: The amount due to a director was not trade related, and the balance was unsecured, interest-free and repayable on demand.

18 BORROWINGS

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Bank borrowings:		
— Secured (ii), (iii) & (iv)	26,000	26,000

Total bank borrowings were scheduled to repay as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
On demand or within 1 year	26,000	26,000
	26,000	26,000

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

18 BORROWINGS (Continued)

- (i) The interest rate of the bank borrowings was 5.87% per annum for the six months ended 30 June 2020 and the variable interest rates of the bank borrowings was ranging from 5.16% to 5.87% for the year ended 31 December 2019.
- (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 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Land and buildings	79,872	81,892
	79,872	81,892

- (iii) As at 30 June 2020 and 31 December 2019, guarantees were provided by the controlling shareholders and the family members of the controlling shareholders for the bank borrowings.
- (iv) All the bank borrowings were denominated in RMB.
- (v) A summary of facilities granted by banks and the amounts utilised by the Group at 30 June 2020 and 31 December 2019 set out below:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Amounts granted	26,000	26,000
Amounts utilised	26,000	26,000

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

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

19 SHARE CAPITAL

The Company

	Notes	As at 30 June 2020		As at 31 December 2019	
		Number of shares (Unaudited)	Nominal value RMB'000 (Unaudited)	Number of shares (Audited)	Nominal value RMB'000 (Audited)
Authorised:					
Initial authorised share capital upon incorporation of HK\$0.1 each	(a)	1,000,000,000	85,560	3,800,000	323
Increase in share capital upon capitalisation of HK\$0.1 each	(b)	–	–	996,200,000	85,237
		1,000,000,000	85,560	1,000,000,000	85,560
Issued and fully paid share of HK\$0.1 each					
At 1 January		500,000,000	43,024	100	–*
Issue of ordinary shares upon capitalisation	(c)	–	–	374,999,900	32,086
Issue of ordinary shares upon global offering and placing	(d)	–	–	125,000,000	10,938
At 30 June 2020/31 December 2019		500,000,000	43,024	500,000,000	43,024

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

FOR THE SIX MONTHS ENDED 30 JUNE 2020

20 OPERATING LEASE COMMITMENT AND ARRANGEMENT

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 2020 and 31 December 2019, the total future minimum lease payments receivable under operating leases in respect of investment properties are as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
— Within one year	—	275
— In the second to fifth year, inclusive	—	—
— After five years	—	—
	—	275

21 CAPITAL COMMITMENTS

As at 30 June 2020 and 31 December 2019, capital commitments not provided for in the financial statements were as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Capital expenditure of the Group contracted for but not provided in the condensed consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	14,120	3,019

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

FOR THE SIX MONTHS ENDED 30 JUNE 2020

22 MATERIAL RELATED PARTY TRANSACTIONS

Other than disclosed in Note 8, the Group entered into the following material related party transactions for the six months ended 30 June 2020 and 2019.

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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Short-term employee benefits	2,326	696
Retirement scheme contribution	28	23
	2,354	719

Management Discussion and Analysis

BUSINESS AND INDUSTRY REVIEW

The Group is a sintered NdFeB magnetic material (“**SNPM**”) manufacturer and supplier in 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 is principally engaged in the design, development, production and sale of sintered NdFeB magnetic materials. The Group’s 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 2020, the Group recorded revenue of approximately RMB153.5 million, down by approximately 24% compared to the same period last year. The decrease is primarily due to the impact of the Coronavirus Disease 2019 (“**COVID-19**”) in the PRC since January 2020. The Group’s resumption of work has been delayed and the work and production stoppage of certain customers in the first quarter of 2020 has reduced demand for the Group’s orders, resulting in a decrease in both sales and sales volume compared to the same period last year. The Group will continue to implement appropriate disease prevention and control, timely assess and actively respond to the development of the disease, and minimize the adverse impact of the epidemic on the Group’s production and operation. The profit attributable to owners of the Company was approximately RMB47.1 million, representing a year-on-year increase of approximately 96%. The increase is mainly due to one-off other incomes during the period.

In the past six months, the sluggish market condition caused by the COVID-19 has adversely impacted the national and even global economy. The Group nor its related upstream and downstream enterprise groups are not spared either. The downstream terminals of rare earth permanent magnetic materials are industries with long industrial chains and long payment terms. Therefore, when the outbreak of the epidemic causes the work and production stoppage of the manufacturing industry, it put pressure on the supply chain and production levels. The management of the Group actively responded to the outbreak and made every effort to reduce the adverse impact of the epidemic on the Group’s production and sales. At the same time, the Group supports the local fight against the epidemic through donations and donation of supplies, and actively fulfills its corporate social responsibility.

PROSPECT

The impact of the epidemic on the economy is short-lived, the development direction of the industry is, however, clear and the national policies support the development of the high-performance NdFeB permanent magnets. The National Development and Reform Commission further clarified the scope of the concept “new infrastructure”. Compared with traditional infrastructures, “new infrastructure” is a new type of infrastructure construction that focuses on science and technology and digitization of information. It mainly includes seven fields: 5G infrastructure, ultra high voltage, inter-city high speed railway and urban rail transit, new energy vehicle charging piles, big data centres, artificial intelligence, and industrial internet. Practitioners of the industry are of the opinion that the construction of 5G base station, wind power development, permanent-magnetic electric motor, new energy vehicles and other “new infrastructure” construction will promote the development of the rare earth industry. It is expected that during the “14th Five Year Plan” period, with the successive implementation of national strategies for instance “Internet Plus” and the accelerated development of emerging industries for instance intelligent manufacturing, new energy vehicles, industrial robots and 3D printing, rare earth magnetic materials will have a broader room for application and development.

In light of the development of the industry and the national development policy, and in order to grasp new opportunities and meet future challenges, the Group’s development priorities for the second half of the year include the following:

1. Further optimize the production process and improve production techniques. The Group will strengthen the research and development of new production technologies, research and development of low-heavy/free-heavy rare earth permanent magnetic materials, and the development of new molding processes to improve product performance.

Management Discussion and Analysis

- The Group will deepen the relationship between users of high-end products, especially cooperating with overseas high-quality customers, in order to gain more market share and optimize the business structure. Following the development direction of the Chinese government and responding to the country's new infrastructure and concept of energy conservation and environmental protection, the Group will actively promote the movement of permanent magnetic material products to high-end level and accelerate the downward extension of the industrial chain.
- The Group will seek for potential upstream and downstream merging and acquisition opportunities and explore the possibility of vertical integration of the industrial chain. Upstream development can better ensure the supply of raw materials and to a certain extent diversify business risks caused by fluctuations in raw material costs.

FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 30 June 2020 amounted to approximately RMB153.5 million, representing a decrease of approximately RMB49.2 million, or 24% compared to approximately RMB202.7 million for the six months ended 30 June 2019. The decrease in revenue was mainly attributable to the decrease in sales orders from customers. The following table sets out a breakdown of revenue by series of products and its percentage of the total revenue during the period under review:

		Six months ended 30 June			
		2020		2019	
		RMB'000	%	RMB'000	%
Finished Products					
Low-end:	N series	15,610	10.2	16,926	8.3
Middle-end:	M series	1,155	0.8	91	0.1
	H series	15,457	10.0	16,699	8.2
High-end:	SH series	63,186	41.1	76,854	37.9
	UH series	31,944	20.8	44,072	21.7
	EH series	1,994	1.3	1,560	0.8
Others	–	106	0.1	–	–
Finished Products Total		129,452	84.3	156,202	77.0
Rough Cast Products					
Low-end:	N series	21,382	13.9	46,417	22.9
Middle-end:	M series	362	0.2	112	0.1
	H series	681	0.5	–	–
High-end:	SH series	1,357	0.9	–	–
	UH series	303	0.2	–	–
Rough Cast Products Total		24,085	15.7	46,529	23.0
Total		153,537	100.0	202,731	100.0

As shown in the table above, the decrease in revenue was mainly attributable to the decrease in sale from SH and UH series of finished products and N series of rough cast products. The decrease in orders was attributable to the outbreak of the COVID-19 and most customers such as high-end equipment manufacturers had delayed the resumption of work and production after the Chinese New Year holiday. The worldwide outbreak of COVID-19 has reduced the demands for consumer electronics and energy-saving home appliances which caused a decrease in sales of low-end SNPM products.

Management Discussion and Analysis

Gross profit and gross profit margin

The gross profit of the Group for the six months ended 30 June 2020 amounted to approximately RMB39.0 million, representing a decrease of approximately RMB17.9 million, or 31% compared to approximately RMB56.9 million for the six months ended 30 June 2019. While the Group's gross profit margin was approximately 25.4%, representing a decrease of approximately 2.6 percentage points as compared to approximately 28.0% for the six months ended 30 June 2019. The decrease in gross profit and gross profit margin were mainly attributable to the increase in the price of raw materials and manufacturing costs for the six months ended 30 June 2020 compared with the same period in 2019.

Other income and other net gains

The other income and other net gains of the Group for the six months ended 30 June 2020 amounted to approximately RMB47.5 million, representing an increase of approximately RMB45.9 million compared to approximately RMB1.6 million for the six months ended 30 June 2019. The increase was mainly due to the one-off government subsidies and gain on disposal of property, plant and equipment and investment properties amounted to approximately RMB19.0 million and RMB28.2 million respectively for the six months ended 30 June 2020.

Selling and distribution expenses

Selling and distribution expenses amounted to approximately RMB1.6 million and RMB2.2 million for the six months ended 30 June 2020 and 2019 respectively. The decrease in selling and distribution expenses was in line with the decrease in revenue for the six months ended 30 June 2020. Selling and distribution expenses as a percentage of the revenue remained stable, which was approximately 1.1% for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately 1.1%).

Administrative expenses

The administrative expenses of the Group for the six months ended 30 June 2020 amounted to approximately RMB25.1 million, representing an increase of approximately RMB2.5 million or 11% compared to approximately RMB22.6 million for the six months ended 30 June 2019. The increase was mainly due to an increase of approximately RMB9.1 million in research and development expenditures for modifying and optimising the production process, countered by the listing expenses of approximately RMB7.5 million incurred for the six months ended 30 June 2019.

Finance costs

The Group recorded approximately RMB799,000 of finance costs for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB2.4 million). The finance costs represent interest expenses of bank borrowing and interest expenses of lease liabilities.

Profit for the period

As a result of the foregoing, profit for the period increased by approximately 96% from approximately RMB24.1 million for the six months ended 30 June 2019 to approximately RMB47.1 million for the six months ended 30 June 2020.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had cash and cash equivalents of approximately RMB170.4 million (31 December 2019: approximately RMB180.0 million). The decrease was primarily due to the net cash used in operating activities.

For the first half year of 2020, the Company's net cash used in operating activities amounted to approximately RMB41.8 million, while the net cash generated from operating activities amounted to approximately RMB41.3 million in the same period of the previous year. The net cash used in operating activities was mainly due to changes in working capital and payment of approximately RMB10.6 million for the income tax mainly arising from other income and other net gains for the six months ended 30 June 2020.

For the first half year of 2020, the Company's net cash generated from investing activities amounted to approximately RMB5.8 million while the net cash generated from investing activities amounted to approximately RMB96,000 in the same period of the previous year. The increase in net cash generated from investing activities was mainly due to proceeds from the disposal of property, plant and equipment amounted to approximately RMB5.2 million for the six months ended 30 June 2020.

For the first half year of 2020, the Company's net cash generated from financing activities amounted to approximately RMB26.4 million, while the net cash generated from financing activities amounted to approximately RMB70.1 million in the same period of the previous year. The decrease in net cash generated from financing activities was mainly due to net proceeds from the global offering recorded in the corresponding period in 2019 did not incur in the six months ended 30 June 2020.

Current ratio increased from 3.2 as at 31 December 2019 to 5.5 as at 30 June 2020, mainly due to increase in trade receivables and inventories. Gearing ratio decreased from 7.3% as at 31 December 2019 to 6.9% as at 30 June 2020, mainly attributable to the increase in reserves of the Group. The gearing ratio is calculated based on total debt divided by total equity at the end of the respective period.

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

CAPITAL STRUCTURE

The Company's capital structure has not been changed during the six months ended 30 June 2020. As at 30 June 2020, the Company's issued share capital amounted to HK\$50,000,000 (equivalent to RMB43,024,000) and the number of issued ordinary shares was 500,000,000 with nominal value of HK\$0.1 each.

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 the Group's operations, assets and liabilities are mostly denominated in RMB. Therefore, the Group was not exposed to any significant foreign exchange risk, except for its HK\$ denominated bank balances. 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 2020. The management will closely monitor foreign currency exposure and will consider hedging significant foreign currency exposure should such need arises.

Management Discussion and Analysis

INTERIM DIVIDEND

The Directors resolved not to declare any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no significant contingent liabilities (31 December 2019: Nil).

PLEDGE OF ASSETS

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

CAPITAL COMMITMENTS

The Group's capital commitments as at 30 June 2020 were approximately RMB14,120,000, which were relating to the purchase of property, plant and equipment related to its production facilities (31 December 2019: approximately RMB3,019,000).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Disposal of properties

On 10 October 2019, Ningde Xingyu Technology Co., Ltd. (a wholly owned subsidiary of the Company and a company established in the PRC with limited liability) entered into the prepayment agreement with Dongqiao Economic and Technological Development District Land Reserve Center in relation to the disposal of a parcel of land, 3 industrial buildings, a research and development building and various structures located in Dongqiao Economic Development District in Ningde City of Fujian Province (the "**Properties**"). The disposal constitutes a discloseable transaction of the Company under the Listing Rules. The disposal of the Properties was completed on 8 May 2020 upon receipt of the remaining balance of the disposal consideration. For details of the disposal, please refer to the announcements of the Company dated 10 October 2019 and 8 May 2020.

Save as disclosed above, the Group did not have any material acquisition and disposal of subsidiaries, associates and joint ventures during the six months ended 30 June 2020. As at 30 June 2020, the Group did not hold any significant investments.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group has 197 employees (31 December 2019: 202 employees). Total staff costs (including Directors' emoluments) were approximately RMB10,065,000 for the six months ended 30 June 2020 (30 June 2019: RMB10,359,000). 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 (operated 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. In addition, share options may be granted under the share option scheme of the Company to eligible employees on the basis of their individual performance to attract and retain talents to contribute the Group. The Group also provides various training to its employees.

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. 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 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 2020, approximately HK\$57.8 million of the net proceeds has been used by the Group. The unutilised proceeds were deposited with the licensed banks in Hong Kong and the PRC. The balance of the unutilised proceeds is expected to be utilised in the coming two years. 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 2020	Unutilised amount as at 30 June 2020
	<i>%</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
For the expansion of production capacity and the enhancement of operational efficiency	48.3	39.1	16.0	23.1
For modifying and optimising production process and technology, and implementing key research and development projects	17.4	14.1	14.1	–
For repayment of part of the borrowings	31.3	25.3	25.3	–
For working capital and general corporate purposes	3.0	2.4	2.4	–
	100.0	80.9	57.8	23.1

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2020, 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 Listing Rules, are set out below:

Name of Director	Capacity	Long position/ Short position	Number of shares held/ interested in	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	21,614,000	4.3%
Mr. Lyu Zhufeng	Interest in a controlled corporation (Note 2)	Long position	21,614,000	4.3%
	Interests held jointly with another person (Note 2)	Long position	210,000,000	42.0%

Notes:

- 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 21,614,000 shares which are held by Wind Lv (which is in turn held as to 100% by Mr. Lyu Zhufeng).
- Mr. Lyu Zhufeng owns the entire issued share capital of Wind Lv, which in turns holds 21,614,000 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 2020.

Other Information

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

As at 30 June 2020, 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 of Shareholder	Capacity	Long position/ short position	Number of shares held/ interested in	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	21,614,000	4.3%
Wind Lv	Beneficial owner (Note 2)	Long position	21,614,000	4.3%
	Interests held jointly with another person (Note 2)	Long position	210,000,000	42.0%
Ms. Yao Jingjing	Interest of spouse (Note 3)	Long position	231,614,000	46.3%
Mr. Yu Qiang	Beneficial owner (Note 4)	Long position	40,000,000	8.0%
Many Idea Limited ("Many Idea")	Beneficial owner (Note 5)	Long position	30,000,000	6.0%
Mr. Liu Jianhui	Interest in a controlled corporation (Note 5)	Long position	30,000,000	6.0%

Notes:

- 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 21,614,000 shares which are held by Wind Lv (which is in turn held as to 100% by Mr. Lyu Zhufeng).
- 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).
- 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.
- On 10 June 2020, the Company and Mr. Yu Qiang entered into a subscription agreement (which was amended and supplemented by a supplemental agreement entered into between the parties dated 10 July 2020) in relation to the subscription of 40,000,000 new shares of the Company. The subscription agreement has been automatically lapsed pursuant to its terms on 10 August 2020. Please refer to the Company's announcements dated 10 June 2020, 10 July 2020 and 10 August 2020 for details of the said share subscription.
- 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.

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 2020.

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 its adoption and up to the date of this report.

PURCHASE, REDEMPTION OR SALE 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 six months ended 30 June 2020.

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 in the Corporate Governance Code (“**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 the 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 Board considers that, the Company has fully complied, to the extent applicable and permissible, with the code provisions set out in the CG Code during the six months ended 30 June 2020.



Other Information

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. Mr. Lyu Zhufeng, the executive Director, chairman, chief executive officer and a controlling shareholder of the Company, informed the Company that, during the six months ended 30 June 2020, there was a forced sale of certain shares of the Company held by Wind Lv, a company wholly-owned by Mr. Lyu Zhufeng, arising from enforcement of margin financings in respect of the shares held by Wind Lv. Mr. Lyu Zhufeng is unintentionally not fully complied with such required standards. Save as disclosed above, having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standards as set out in the Model Code during the six months ended 30 June 2020.

CHANGE IN DIRECTOR'S INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of the Directors subsequent to the date of the annual report of the Company for the year ended 31 December 2019 are set out below:

Mr. Fan Chun Wah, Andrew, *J.P.*, an independent non-executive Director, resigned as an independent non-executive director of Sinomax Group Limited (whose shares are listed on the Main Board of the Stock Exchange, stock code: 1418) with effect from 30 June 2020 and retired as an independent non-executive director of CNC Holdings Limited (whose shares are listed on GEM of the Stock Exchange, stock code: 8356) with effect from 11 August 2020 respectively.

Save as disclosed above, the Company is not aware of any other change in the Directors' information required to be disclosed as at the date of this report.

REVIEW OF THE INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") in compliance with Rule 3.21 of the Listing Rules. Written terms of reference in compliance with the CG Code has been adopted. The Audit Committee consists of three members, namely Mr. Fan Chun Wah, Andrew, *J.P.*, Mr. Lu Qingxing and Mr. Yan Aru. Mr. Fan Chun Wah, Andrew, *J.P.*, is the chairman of the Audit Committee. The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2020.

EVENT AFTER THE END OF THE REPORTING PERIOD

On 10 June 2020, the Company entered into the subscription agreements with the subscribers in relation to the proposed issue and allotment of new shares of the Company under the general mandate. On 10 July 2020, the Company and the respective subscribers have entered into the supplemental agreements to the subscription agreements in relation to the extension of long stop date for completion of the subscription to 10 August 2020 or such other date as may be mutually agreed between the Company and the respective subscribers. As certain conditions precedent under the subscription agreements have not been fulfilled as of 10 August 2020 and the parties did not come to an agreement on further extension of the long stop date, the subscription agreements have been automatically lapsed pursuant to the terms of the subscription agreements. Accordingly, the subscription will not be proceeded with. For details of the subscription, please refer to the announcements of the Company dated 10 June 2020, 10 July 2020 and 10 August 2020.

By order of the Board

Universal Star (Holdings) Limited

Lyu Zhufeng

Chairman, Chief Executive Officer and Executive Director