



2021 INTERIM REPORT

UNIVERSAL STAR (HOLDINGS) LIMITED
星宇(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

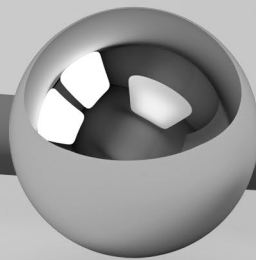
Stock Code: 2346

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 **CORPORATE** INFORMATION 



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Liang Lixia (*Chairlady of the Board*)
(*appointment effective from 13 July 2021*)

Mr. Lyu Zhufeng
(*Chairman of the Board*)
(*resignation effective from 13 July 2021*) (Note a)

Non-executive Directors

Mr. Zhang Jianto (*appointment effective from 13 July 2021*)

Mr. Lu Qingxing

Independent Non-executive Directors

Mr. Tsang Chun Yiu (*resignation effective from 15 June 2021*)

Mr. Yan Aru

Mr. Lee Ming Tak (*resignation effective from 13 July 2021*)

Mr. Gong Peiyue (*appointment effective from 13 July 2021*)

Mr. Lai Wai Leuk (*appointment effective from 15 June 2021*)

AUDIT COMMITTEE

Mr. Tsang Chun Yiu (*Chairman*) (*resignation effective from 15 June 2021*)

Mr. Lai Wai Leuk (*Chairman*) (*appointment effective from 15 June 2021*)

Mr. Lu Qingxing (*resignation effective from 13 July 2021*)

Mr. Yan Aru

Mr. Zhang Jiantao (*appointment effective from 13 July 2021*)

REMUNERATION COMMITTEE

Mr. Yan Aru (*Chairman*)

Mr. Lu Qingxing (*resignation effective from 13 July 2021*)

Mr. Lee Ming Tak (*resignation effective from 13 July 2021*)

Mr. Zhang Jianto (*appointment effective from 13 July 2021*)

Mr. Gong Peiyue (*appointment effective from 13 July 2021*)

NOMINATION COMMITTEE

Ms. Liang Lixia (*Chairlady*) (*appointment effective from 13 July 2021*)

Mr. Lyu Zhufeng (*Chairman*) (*resignation effective from 13 July 2021*)

Mr. Tsang Chun Yiu (*resignation effective from 15 June 2021*)

Mr. Yan Aru

Mr. Lai Wai Leuk (*appointment effective from 15 June 2021*)

COMPANY SECRETARY

Mr. Tse Kam Fai (*resignation effective from 5 February 2021*)

Ms. So Hiu Tung Miranda (*appointment effective from 5 February 2021 and resignation effective from 13 July 2021*)

Mr. Leung Yiu Cho (*appointment effective from 13 July 2021*)

AUTHORISED REPRESENTATIVES

Ms. Liang Lixia (*appointment effective from 13 July 2021*)

Mr. Leung Yiu Cho (*appointment effective from 13 July 2021*)

Mr. Lyu Zhufeng (*resignation effective from 13 July 2021*)

Ms. So Hiu Tung Miranda (*appointment effective from 5 February 2021 and resignation effective from 13 July 2021*)

Mr. Tse Kam Fai (*resignation effective from 5 February 2021*)

LEGAL ADVISERS AS TO HONG KONG LAW

Chungs Lawyers (*in association with DeHeng Law Offices*)

AUDITOR

Moore Stephens CPA Limited
Certified Public Accountants

COMPLIANCE ADVISER

Southwest Securities (HK) Capital Limited

Note a: Mr. Lyu Zhufeng remained as the chief executive officer of the Company

Corporate Information

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

Unit 702, 7/F, Cheuk Nang Centre
9 Hillwood Road
Tsim Sha Tsui
Kowloon, Hong Kong
(effective between 22 January and 30 August 2021)

Unit 805, General Commercial Building
156-164 Des Voeux Road Central
Hong Kong
(effective from 31 August 2021)

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

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 2021

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) |
| Revenue | 5 | 112,449 | 153,537 |
| Cost of sales | | (92,919) | (114,575) |
| Gross profit | | 19,530 | 38,962 |
| Other income and other net gains | 6 | 207 | 47,497 |
| Selling and distribution expenses | | (810) | (1,628) |
| Administrative expenses | | (13,165) | (25,092) |
| Expected credit loss on financial assets | | (2,744) | (2,218) |
| Finance costs | 7 | (873) | (799) |
| Profit before income tax expense | 8 | 2,145 | 56,722 |
| Income tax expense | 9 | 3,233 | (9,642) |
| Profit for the period | | 5,378 | 47,080 |
| 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") | | (2,903) | (45) |
| Other comprehensive income for the period | 10 | (2,903) | (45) |
| Total comprehensive income for the period | | 2,475 | 47,035 |
| Earnings per share | | | |
| Basic and diluted | 12 | RMB1.1 cents | RMB9.4 cents |

Condensed Consolidated Statement of Financial Position

AS AT 30 JUNE 2021

| | Notes | 30 June 2021 RMB'000 (Unaudited) | 31 December 2020 RMB'000 (Audited) |
|--|-------|---|---|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 133,806 | 132,871 |
| Prepayments | | 175 | 6,766 |
| Deferred tax assets | | 2,309 | 974 |
| | | 136,296 | 140,611 |
| Current assets | | | |
| Inventories | | 56,172 | 36,661 |
| Trade receivables | 14 | 218,227 | 169,825 |
| Deposits, prepayments and other receivables | 15 | 3,700 | 4,377 |
| Tax recoverable | | 2,412 | 2,776 |
| Cash and cash equivalents | | 78,182 | 119,229 |
| | | 358,693 | 332,868 |
| Current liabilities | | | |
| Trade payables | 16 | 18,856 | 11,318 |
| Accruals and other payables | 17 | 44,272 | 47,485 |
| Lease liabilities | | 351 | 341 |
| Income tax payable | | 2,223 | – |
| Borrowings | 18 | 26,000 | 26,000 |
| | | 91,702 | 85,144 |
| Net current assets | | 266,991 | 247,724 |
| Total assets less current liabilities | | 403,287 | 388,335 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 10,845 | 10,542 |
| Lease liabilities | | 373 | 551 |
| | | 11,218 | 11,093 |
| Net assets | | 392,069 | 377,242 |
| EQUITY | | | |
| Share capital and reserves | | | |
| Share capital | 19 | 46,466 | 43,024 |
| Reserves | | 345,603 | 334,218 |
| Total equity | | 392,069 | 377,242 |

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2021

| | Reserves | | | | | | | Total equity RMB'000 |
|--|--------------------------|---------------------------|--|--|---|------------------------------|---------------------------|-------------------------|
| | Share capital RMB'000 | Share premium* RMB'000 | Other reserves* RMB'000 (Note a) | Statutory reserves* RMB'000 (Note b) | Exchange reserves* RMB'000 (Note c) | Retained profits* RMB'000 | Total reserves RMB'000 | |
| 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 |
| At 1 January 2021 (audited) | 43,024 | 115,016 | 220 | 33,676 | 1,844 | 183,462 | 334,218 | 377,242 |
| Profit for the period | – | – | – | – | – | 5,378 | 5,378 | 5,378 |
| Other comprehensive income for the period | – | – | – | – | (2,903) | – | (2,903) | (2,903) |
| Total comprehensive income for the period | – | – | – | – | (2,903) | 5,378 | 2,475 | 2,475 |
| Shares issued pursuant to the public offering and placing (Note d) | 3,442 | 8,910 | – | – | – | – | 8,910 | 12,352 |
| At 30 June 2021 (unaudited) | 46,466 | 123,926 | 220 | 33,676 | (1,059) | 188,840 | 345,603 | 392,069 |

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

Notes:

- Other reserves represented the aggregate of the paid up capital.
- 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.
- Exchange reserves comprise all relevant translation differences arising from the translation of the financial statements of operations with functional currency other than RMB.
- See note 19 of the Notes to the Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2021

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Cash flows from operating activities | | |
| <i>Net cash (used in)/generated from operating activities</i> | (56,148) | (41,805) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (391) | (251) |
| 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 | 669 | 5,223 |
| Interest income received | 171 | 192 |
| <i>Net cash generated from investing activities</i> | 449 | 5,849 |
| Cash flows from financing activities | | |
| Proceeds from borrowings | – | – |
| Repayment of borrowings | – | – |
| Payment of lease liabilities | (190) | (344) |
| Repayment to shareholders | – | – |
| Advance from a director | 2,981 | 1,827 |
| Interest paid for borrowings | (850) | (776) |
| Temporary receipts from subscription | – | 25,657 |
| Shares issued pursuant to the public offering and placing | 12,352 | – |
| Transaction costs attributable to the public offering and placing | – | – |
| <i>Net cash generated from financing activities</i> | 14,293 | 26,364 |
| Net (decrease)/increase in cash and cash equivalents | (41,406) | (9,592) |
| Cash and cash equivalents at beginning of the period | 119,229 | 180,046 |
| Effect of foreign exchange rate changes | 359 | (48) |
| Cash and cash equivalents at end of the period | 78,182 | 170,406 |

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 ultimate holding company is Amer Holdings Group Company Limited*, a company incorporated in the PRC 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 30 August 2021.

These condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2020 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 2021. 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 (“**HKS**”). 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 2020 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 2020 consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

3 ADOPTION OF NEW OR REVISED HKFRSs

(a) Adoption of new/revised HKFRSs — effective 1 January 2020

The Group has applied for the first time the following new and revised standards and interpretation (“**new and revised HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) which are effective for the Group’s financial year beginning on or after 1 January 2020.

| | |
|---|--|
| HKAS1 and HKAS 8 Amendments | Definition of Material |
| HKFRS 3 Amendments | Definition of a Business |
| HKFRS 9, HKAS 39 and HKFRS 7 Amendments | Interest Rate Benchmark Reform — Phase 1 |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting |

The application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

(b) New standards, interpretations and amendments not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | | Effective for annual reporting periods beginning on or after |
|--|---|---|
| HKFRS 10 and HKAS 28 Amendments | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined* |
| Amendment to HKFRS 16 | COVID-19 related rent concessions | 1 June 2020 |
| HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Amendments | Interest Rate Benchmark Reform — Phase 2 | 1 January 2021 |
| HKAS 16 Amendments | Property, Plant and Equipment — Proceeds before Intended Use | 1 January 2022 |
| HKAS 37 Amendments | Onerous Contracts — Cost of Fulfilling a Contract | 1 January 2022 |
| HKFRS 3 Amendments | Reference to the Conceptual Framework | 1 January 2022 |
| HKFRSs Amendments 2018-2020 | Annual Improvements to HKFRSs | 1 January 2022 |
| HKAS 1 Amendments | Classification of Liabilities as Current or Non-current | 1 January 2023 |
| HKFRS 17 | Insurance Contracts | 1 January 2023 |

* The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2019.

The effective date has now been deferred. Early application of the amendments continues to be permitted.

The Directors do not anticipate that the application of the new and revised HKFRSs will have material impact on the Group’s consolidated financial statements and/or the disclosures to the Group’s consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2020 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 2021 and 2020.

(ii) Geographical information

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

| | Six months ended 30 June | |
|-------------------------------------|---------------------------------|-------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| The PRC (place of domicile) | 111,296 | 148,687 |
| Asia Pacific (exclusive of the PRC) | 1,153 | 4,850 |
| | 112,449 | 153,537 |

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 2021

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 | |
|--|--------------------------------|--------------------------------|
| | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) |
| Primary geographical markets | | |
| The PRC | 111,296 | 148,687 |
| Asia Pacific (exclusive of the PRC) | 1,153 | 4,850 |
| | 112,449 | 153,537 |
| Major products | | |
| Finished products | 92,724 | 129,452 |
| Rough cast products | 19,725 | 24,085 |
| | 112,449 | 153,537 |
| Timing of revenue recognition | | |
| Product transferred at a point in time | 112,449 | 153,537 |

6 OTHER INCOME AND OTHER NET GAINS

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) |
| Bank interest income | 171 | 192 |
| Exchange losses, net | (8) | (7) |
| Government grants (Note) | – | 19,045 |
| Rental income generated from investment properties | – | 281 |
| Gain on disposal of property, plant and equipment and investment properties | 44 | 28,162 |
| Other net losses | – | (176) |
| | 207 | 47,497 |

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 2021

7 FINANCE COSTS

| | Six months ended 30 June | |
|-------------------------------|--------------------------|-------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Interest charge on borrowings | 851 | 776 |
| Interest on lease liabilities | 22 | 23 |
| | 873 | 799 |

8 PROFIT BEFORE INCOME TAX EXPENSE

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

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Cost of inventories recognised as expenses | 92,919 | 114,575 |
| Research and development expenditure | 3,411 | 14,684 |
| Depreciation charge: | | |
| — Owned property, plant and equipment | 5,530 | 5,283 |
| — Right-of-use-assets included within: | | |
| — Land and buildings | 314 | 608 |
| Low-value assets leases expenses | 113 | 9 |
| Staff costs (including Directors' emoluments): | | |
| — Salaries, wages and other benefits | 6,928 | 9,874 |
| — Retirement scheme contribution | 832 | 191 |
| | 7,760 | 10,065 |

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

9 INCOME TAX EXPENSE

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Current tax | | |
| Tax for the current period | 2,223 | 9,877 |
| Overprovision in prior period | (4,424) | (358) |
| Deferred tax | | |
| Charged to profit or loss for the period | (1,032) | 123 |
| | (3,233) | 9,642 |

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 British Virgin Islands ("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.

10 OTHER COMPREHENSIVE INCOME

| | Before-tax amount RMB'000 | Tax effect RMB'000 | Net-of-tax amount RMB'000 |
|--|---------------------------------|-----------------------|---------------------------------|
| Six months ended 30 June 2021 (Unaudited) | | | |
| Exchange differences on translation of operations outside the PRC | 2,903 | – | 2,903 |
| Other comprehensive income | 2,903 | – | 2,903 |
| Six months ended 30 June 2020 (Unaudited) | | | |
| Exchange differences on translation of operations outside the PRC | (45) | – | (45) |
| Other comprehensive income | (45) | – | (45) |

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

11 DIVIDENDS

The Directors resolved not to declare any interim dividend for the six months ended 30 June 2021 (30 June 2020: 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 | |
|---|--------------------------|---------------------|
| | 2021 (Unaudited) | 2020 (Unaudited) |
| Earnings | | |
| Earnings for the purposes of basic earnings per share (RMB'000) | 5,378 | 47,080 |
| Number of shares | | |
| Weighted average number of ordinary shares (note) | 513,760,667 | 500,000,000 |

Note:

For the six months ended 30 June 2021, the calculation of basic earnings per share is based on the profit attributable to the owners of the Company of RMB5,378,000 and the weighted average number of 513,760,667 ordinary shares.

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.

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 2021 and 2020.

13 MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

The Group has no new lease agreement during the six months ended 30 June 2021. During the six months ended 30 June 2020, the Group has entered into several leases for office. Right-of-use assets amounted to approximately RMB1,200,000 has been recognised for the current period.

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

13 MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2021, the Group incurred expenditures on additions to property, plant and equipment with a total cost of RMB7,202,000 (six months ended 30 June 2020: RMB4,370,000).

The Group disposed certain of its property, plant and equipment with a carrying amount of approximately RMB1,199,000 which resulted in a disposal profit of approximately RMB44,000 for the six months ended 30 June 2021. 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.

At 30 June 2021 and 31 December 2020, land and buildings with carrying amounts of RMB79,197,000 and RMB81,368,000, respectively were pledged as collateral for the Group's bank borrowings (see Note 18).

14 TRADE RECEIVABLES

| | As at 30 June 2021 RMB'000 (Unaudited) | As at 31 December 2020 RMB'000 (Audited) |
|---|---|--|
| Trade receivables | 227,463 | 176,327 |
| Less: allowance for impairment of trade receivables | (9,236) | (6,502) |
| | 218,227 | 169,825 |

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 2020: 30 to 210 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 2021 RMB'000 (Unaudited) | As at 31 December 2020 RMB'000 (Audited) |
|--------------|---|--|
| 0–30 days | 27,248 | 13,447 |
| 31–60 days | 26,916 | 12,107 |
| 61–90 days | 19,754 | 14,744 |
| Over 90 days | 144,309 | 129,527 |
| | 218,227 | 169,825 |

The Group applies the simplified approach to provide for expected credit loss prescribed by HKFRS 9, 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 2021

15 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | As at | As at |
|-------------------|--------------------|-------------|
| | 30 June | 31 December |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Deposits | – | 56 |
| Prepayments | 77 | 121 |
| Other receivables | 3,623 | 4,200 |
| | 3,700 | 4,377 |

16 TRADE PAYABLES

| | As at | As at |
|----------------|--------------------|-------------|
| | 30 June | 31 December |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Trade payables | 18,856 | 11,318 |

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 2021 and 31 December 2020 as follows:

| | As at | As at |
|--------------|--------------------|-------------|
| | 30 June | 31 December |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| 0–30 days | 18,856 | 4,537 |
| 31–90 days | – | 1 |
| Over 90 days | – | 6,880 |
| | 18,856 | 11,318 |

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 2021

17 ACCRUALS AND OTHER PAYABLES

| | As at 30 June 2021 RMB'000 (Unaudited) | As at 31 December 2020 <i>RMB'000</i> (Audited) |
|--|---|---|
| Salaries payables | 922 | 1,591 |
| Accruals and other payables | 35,547 | 41,525 |
| Amount due to a director (<i>Note</i>) | 6,883 | 3,946 |
| Financial liabilities measured at amortised cost | 43,352 | 47,062 |
| Other tax payables | 922 | 423 |
| | 44,274 | 47,485 |

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 2021 RMB'000 (Unaudited) | As at 31 December 2020 <i>RMB'000</i> (Audited) |
|------------------------------|---|---|
| Bank borrowings: | | |
| — Secured (ii), (iii) & (iv) | 26,000 | 26,000 |

Total bank borrowings were scheduled to repay as follows:

| | As at 30 June 2021 RMB'000 (Unaudited) | As at 31 December 2020 <i>RMB'000</i> (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 2021

18 BORROWINGS (Continued)

- (i) The interest rate of the bank borrowings was 5.87% per annum for the six months ended 30 June 2021 and the variable interest rates of the bank borrowings was 5.87% for the year ended 31 December 2020.
- (ii) The secured bank borrowings are secured by the assets of the Group, the carrying amounts of the assets are as follows:

| | As at | As at |
|--------------------|--------------------|-------------|
| | 30 June | 31 December |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Land and buildings | 79,197 | 81,368 |
| | 79,197 | 81,368 |

- (iii) As at 30 June 2021 and 31 December 2020, guarantees were provided by the original controlling shareholders and their family members 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 2021 and 31 December 2020 set out below:

| | As at | As at |
|------------------|--------------------|-------------|
| | 30 June | 31 December |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (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 2021

19 SHARE CAPITAL

| The Company | As at 30 June 2021 | | As at 31 December 2020 | |
|--|---|--|---|--|
| | Number of shares <i>(Unaudited)</i> | Nominal value <i>RMB'000</i> <i>(Unaudited)</i> | Number of shares <i>(Audited)</i> | Nominal value <i>RMB'000</i> <i>(Audited)</i> |
| Authorised: | | | | |
| Initial authorised share capital upon incorporation of HK\$0.1 each | 1,000,000,000 | 85,560 | 1,000,000,000 | 85,560 |
| Increase in share capital upon capitalisation of HK\$0.1 each | – | – | – | – |
| | 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 | 500,000,000 | 43,024 |
| Issue of ordinary shares upon capitalisation | – | – | – | – |
| Issue of ordinary shares upon placing | 41,282,000 | 3,442 | – | – |
| At 30 June 2021/31 December 2020 | 541,282,000 | 46,466 | 500,000,000 | 43,024 |

Notes to the Condensed Consolidated Financial Statements (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

20 CAPITAL COMMITMENTS

As at 30 June 2021 and 31 December 2020, capital commitments not provided for in the financial statements were as follows:

| | As at 30 June 2021 RMB'000 (Unaudited) | As at 31 December 2020 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 | 1,231 | 1,606 |

21 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 2021 and 2020.

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 | |
|--------------------------------|---|--------------------------------|
| | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) |
| Short-term employee benefits | 2,041 | 2,326 |
| Retirement scheme contribution | 111 | 28 |
| | 2,152 | 2,354 |

Management Discussion and Analysis

BUSINESS AND INDUSTRY REVIEW

The Group is a sintered NdFeB magnetic material (“**SNPM**”) manufacturer and supplier in 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 is principally engaged in the design, development, production and sale of SNPM. 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 2021, the Group recorded revenue of approximately RMB112.4 million, down by approximately 26.8% compared to the same period last year. The decrease is primarily due to the decline in demand from the Group’s customers, which had a material adverse impact on the Group’s revenue, affected by the outbreak of the Coronavirus Disease 2019 (“**COVID-19**”). Furthermore, the increase of the Group’s raw material procurement costs as a result of sharp increase in the price of rare earth materials led to a decrease in gross profit margin. The Group will continue to implement appropriate disease prevention and control measures, 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 RMB5.4 million, representing a year-on-year decrease of approximately 88.6% as compared to approximately RMB47.0 million for the corresponding period in 2020.

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 and its related upstream and downstream enterprise groups are also affected by the impact brought by COVID-19. The downstream terminals of rare earth permanent magnetic materials are industries associated with long industrial chains and long payment terms. Therefore, when the outbreak of the epidemic caused the suspension of work and production 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 supported 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 with 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 2021 (the "Period under Review") amounted to approximately RMB112.4 million, representing a decrease of approximately RMB41.1 million, or approximately 26.8% compared to approximately RMB153.5 million for the six months ended 30 June 2020. 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 | | | |
|----------------------------------|-----------|--------------------------|---------------|-------------|---------------|
| | | 2021 | | 2020 | |
| | | RMB'000 | Approximate % | RMB'000 | Approximate % |
| | | (Unaudited) | | (Unaudited) | |
| Finished Products | | | | | |
| Low-end: | N series | 19,250 | 17.1 | 15,610 | 10.2 |
| Middle-end: | M series | 1,984 | 1.8 | 1,155 | 0.8 |
| | H series | 4,956 | 4.4 | 15,457 | 10.0 |
| High-end: | SH series | 37,578 | 33.4 | 63,186 | 41.1 |
| | UH series | 24,492 | 21.8 | 31,944 | 20.8 |
| | EH series | 104 | 0.1 | 1,994 | 1.3 |
| Others | – | 4,360 | 3.9 | 106 | 0.1 |
| Finished Products Total | | 92,724 | 82.5 | 129,452 | 84.3 |
| Rough Cast Products | | | | | |
| Low-end: | N series | 19,725 | 17.5 | 21,382 | 13.9 |
| Middle-end: | M series | – | – | 362 | 0.2 |
| | H series | – | – | 681 | 0.5 |
| High-end: | SH series | – | – | 1,357 | 0.9 |
| | UH series | – | – | 303 | 0.2 |
| Rough Cast Products Total | | 19,725 | 17.5 | 24,085 | 15.7 |
| Total | | 112,449 | 100.0 | 153,537 | 100.0 |

As shown in the table above, the decrease in revenue was mainly attributable to the decrease in sale from H, SH and UH series of finished 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 2021 amounted to approximately RMB19.5 million, representing a decrease of approximately RMB19.4 million, or approximately 49.9% compared to approximately RMB39.0 million for the six months ended 30 June 2020, while the Group's gross profit margin for the six months ended 30 June 2021 was approximately 17.4%, representing a decrease of approximately 8.0 percentage points as compared to approximately 25.4% for the six months ended 30 June 2020. 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 2021 compared with the same period in 2020.

Other income and other net gains

The other income and other net gains of the Group for the six months ended 30 June 2021 amounted to approximately RMB0.2 million, representing a decrease of approximately RMB47.3 million compared to approximately RMB47.5 million for the six months ended 30 June 2020. The decrease was mainly due to no government subsidies and gain on disposal of property, plant and equipment and investment properties were received and recognised as other income during the six months ended 30 June 2021, while government subsidies and gain on disposal of property, plant and equipment and investment properties of approximately RMB19.0 million and RMB28.2 million, respectively were recorded as other income for the six months ended 30 June 2020.

Selling and distribution expenses

Selling and distribution expenses amounted to approximately RMB0.8 million and RMB1.6 million for the six months ended 30 June 2021 and 2020, respectively. The decrease in selling and distribution expenses was in line with the decrease in revenue for the six months ended 30 June 2021. Selling and distribution expenses as a percentage of the revenue decreased from approximately 1.1% for the six months ended 30 June 2020 to approximately 0.7% for the six months ended 30 June 2021, since the management of the Company applied tight cost control in 2021 due to the impact of COVID-19.

Administrative expenses

The administrative expenses of the Group for the six months ended 30 June 2021 amounted to approximately RMB13.2 million, representing a decrease of approximately RMB11.9 million or approximately 47.5% compared to approximately RMB25.1 million for the six months ended 30 June 2020. The decrease was mainly due to a decrease of approximately RMB12 million in research and development expenditures due to the decrease of sales.

Finance costs

The Group recorded approximately RMB0.9 million of finance costs for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately RMB0.8 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 decreased by approximately 88.6% from approximately RMB47.1 million for the six months ended 30 June 2020 to approximately RMB5.4 million for the six months ended 30 June 2021.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group had cash and cash equivalents of approximately RMB78.2 million (31 December 2020: approximately RMB119.2 million). The decrease was primarily due to the net cash used in operating activities.

For the first half year of 2021, the Company's net cash used in operating activities amounted to approximately RMB56.1 million, while the net cash used in operating activities amounted to approximately RMB41.8 million in the same period of the previous year. The increase in net cash used in operating activities was mainly due to changes in working capital.

For the first half year of 2021, the Company's net cash generated from investing activities amounted to approximately RMB0.4 million while the net cash generated from investing activities amounted to approximately RMB5.8 million in the same period of the previous year. The decrease in net cash generated from investing activities was mainly due to proceeds received and recognized resulting from disposal of property, plant and equipment for the six months ended 30 June 2020.

For the first half year of 2021, the Company's net cash generated from financing activities amounted to approximately RMB14.3 million, while the net cash generated from financing activities amounted to approximately RMB26.4 million in the same period of the previous year. The decrease in net cash generated from financing activities was mainly due to the proceeds from the issue of subscription shares in June 2020 were received and recognised during the six months ended 30 June 2020. However, as certain conditions precedent under the subscription have not been fulfilled, the subscription did not proceed. For further details, please refer to the announcements of the Company dated 10 June 2020, 10 July 2020 and 10 August 2020.

Current ratio increased from 3.90 as at 31 December 2020 to 3.91 as at 30 June 2021, mainly due to the increase in trade receivables and inventories. Gearing ratio increased from 25.5% as at 31 December 2020 to 26.3% as at 30 June 2021, mainly attributable to the increase in trade payables and income tax payable of the Group. The gearing ratio is calculated based on total debt divided by total equity at the end of the respective period.

The Group had a total of borrowings of RMB26 million (31 December 2020: RMB26 million), all of which were bank borrowings. The Group's borrowings were primarily denominated in RMB. The interest rate of the borrowings was variable rate of 5.87% per annum for the six months ended 30 June 2021 and the variable interest rates of the bank borrowings was 5.87% for the year ended 31 December 2020. The maturity of the total borrowings as at 30 June 2021 was repayable on demand or within one year (as at 31 December 2020: repayable on demand or within one year).

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

CAPITAL STRUCTURE

On 29 April 2021, the Company successfully placed 41,282,000 ordinary shares with a par value of HK\$0.1 each at a placing price of HK\$0.37 per placing share. The proceeds of HK\$4,128,200 (equivalent to approximately RMB3,442,000) are equivalent to the par value of the Company's ordinary shares and have been included in the Company's share capital. The remaining proceeds have been included in the share premium account. As at 30 June 2021, the Company's issued share capital amounted to HK\$54,128,200 (equivalent to RMB46,466,000) and the number of issued ordinary shares was 541,282,000 with nominal value of HK\$0.1 each.

Management Discussion and Analysis

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 2021. 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 2021 (six months ended 30 June 2020: Nil).

CONTINGENT LIABILITIES

As at 30 June 2021, the Group had no significant contingent liabilities (31 December 2020: 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 2021 were approximately RMB1,231,000, which were relating to the purchase of property, plant and equipment related to its production facilities (31 December 2020: approximately RMB1,606,000).

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

The Group disposed certain of its property, plant and equipment with a carrying amount of approximately RMB1,199,000 which resulted in a disposal gain of approximately RMB44,000 for the six months ended 30 June 2021.

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 2021. As at 30 June 2021, the Group did not hold any significant investments.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group has 173 employees (31 December 2020: 181 employees). Total staff costs (including Directors' emoluments) were approximately RMB7,760,000 for the six months ended 30 June 2021 (30 June 2020: RMB10,065,000). 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 received by the Company from the global offering, 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 further details of the listing, please refer to the Prospectus.

As at 30 June 2021, approximately HK\$72.45 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 at the end of 2021. Set out below is a summary of the utilisation of the net proceeds:

| | % | Original plan allocation of net proceeds HK\$ million | Actual utilised amount as at 30 June 2021 HK\$ million | Unutilised amount as at 30 June 2021 HK\$ million |
|--|-------|--|---|--|
| For the expansion of production capacity and the enhancement of operational efficiency | 48.3 | 39.1 | 30.65 | 8.45 |
| 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 | 72.45 | 8.45 |

USE OF PROCEEDS FROM PLACING

Reference is made to the announcements of the Company dated 24 March 2021, 26 March 2021, 21 April 2021 and 29 April 2021. For the purpose of strengthening the Company’s financial position and for business development, the Company entered into a placing agreement (the “**Placing Agreement**”) with the placing agent, CNI Securities Group Limited (the “**Placing Agent**”), whereby the Company has conditionally agreed to place, through the Placing Agent, up to an aggregate of 100,000,000 Shares (the “**Placing Shares**”) on a best effort basis to not less than six placees at a price of HK\$0.37 per Placing Share pursuant to the terms and conditions of the Placing Agreement.

On 29 April 2021, the Placing Agent has successfully placed an aggregate of 41,282,000 Placing Shares to not less than six placees who are independent third parties of the Company at a price of HK\$0.37 per Placing Shares. The net proceeds from the Placing (after deducting the relevant expenses) are approximately HK\$14.6 million, representing a net issue price of approximately HK\$0.354 per Placing Share. The market price of the Shares on the date when the issuance terms were determined (i.e. 24 March 2021) was HK\$0.37. The net proceeds from the placing is for business development or investment purposes when opportunities arise, as well as for operating funds and general working capital. During the six months ended 30 June 2021, approximately HK\$2.0 million was used in business development, and approximately HK\$12.1 million was used as general working capital. The unutilised net proceeds up to 30 June 2021 amounted to approximately HK\$0.5 million and is expected to be fully utilised by the end of December 2021 for the purpose of general working capital.

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 optimise 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 2021.

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 has performed these two roles during the six months ended 30 June 2021. 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 during the six months ended 30 June 2021, there is sufficient independent voice within the Board to protect the interests of the Company and its 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 2021.

Other Information

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

As at 30 June 2021, 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 are set out below:

| Name of Director/Chief Executive | Capacity | Long Position/ Short Position | Number of Shares/ underlying 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 | 65,000,000 | 12.0% |
| | Interests held jointly with another person (Note 1) | Long Position | 21,614,000 | 4.0% |
| Mr. Lyu Zhufeng (Note 3) | Interest in a controlled corporation (Note 2) | Long Position | 21,614,000 | 4.0% |
| | Interests held jointly with another person (Note 2) | Long Position | 65,000,000 | 12.0% |

Notes:

- Mr. Lu Qingxing owns the entire issued share capital of Star Lv Limited ("Star Lv"), which in turn holds 65,000,000 Shares. 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. 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 turn holds 21,614,000 Shares. 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. As such, Mr. Lyu Zhufeng is deemed to be interested in the 65,000,000 Shares which are held by Star Lv (which is in turn held as to 100% by Mr. Lu Qingxing).
- Mr. Lyu Zhufeng resigned as an executive Director effective from 13 July 2021 and remained as the chief executive officer of the Company.

Save as disclosed above, none of the Directors, the chief executive 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 2021.

Other Information

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

As at 30 June 2021, 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/ underlying shares held/ interested in | Approximate percentage of the total number of issued Shares* |
|---|---|----------------------------------|---|--|
| Star Lv Limited ("Star Lv") | Beneficial Owner (Note 1) | Long position | 65,000,000 | 12.0% |
| | Interests held jointly with another person (Note 1) | Long position | 21,614,000 | 4.0% |
| Wind Lv Limited ("Wind Lv") | Beneficial Owner (Note 2) | Long position | 21,614,000 | 4.0% |
| | Interests held jointly with another person (Note 2) | Long position | 65,000,000 | 12.0% |
| Ms. Yao Jingjing | Interests of Spouse (Note 3) | Long position | 86,614,000 | 16.0% |
| Amer International Group Company Limited ("Amer") | Beneficial owner | Long position | 145,000,000 | 26.8% |
| Hua Wei Investment Holdings Limited ("Hua Wei") | Interests in a controlled corporation (Note 4) | Long position | 145,000,000 | 26.8% |
| 正威控股集團有限公司 | Interests in a controlled corporation (Note 4) | Long position | 145,000,000 | 26.8% |
| Mr. Wang Wenyin | Interests in a controlled corporation (Note 4) | Long position | 145,000,000 | 26.8% |
| Ms. Liu Jiehong | Interest of spouse (Note 5) | Long position | 145,000,000 | 26.8% |
| 曲頌 | Beneficial owner | Long position | 30,000,000 | 5.5% |

* The percentage was calculated based on 541,282,000 Shares in issue as at 30 June 2021.

Other Information

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. 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).
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. As such, Wind Lv is deemed to be interested in the 65,000,000 Shares which are held by Star Lv (which is in turn held as to 100% by Mr. Lu Qingxing).
3. 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 in which Mr. Lyu Zhufeng is interested in.
4. Amer is wholly-owned by Hua Wei; Hua Wei is wholly-owned by 正威控股集團有限公司; and 正威控股集團有限公司 is owned as to 90% by Mr. Wang Wenyin. By virtue of the SFO, each of Hua Wei, 正威控股集團有限公司 and Mr. Wang Wenyin is deemed to be interested in such Shares held by Amer.
5. Ms. Liu Jiehong, being the spouse of Mr. Wang Wenyin, is deemed to be interested in all the Shares in which Mr. Wang Wenyin is interested by virtue of the SFO.

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 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2021.

REVIEW OF THE INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company established 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 comprises three members, all being non-executive Directors, namely Mr. Lai Wai Leuk (Chairman), Mr. Yan Aru and Mr. Zhang Jiantao, who together have sufficient accounting and financial management expertise and business experience to discharge their duties. The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2021.

Other Information

EVENT AFTER THE END OF THE REPORTING PERIOD

On 13 July 2021, Ms. Liang Lixia has been appointed as an executive Director and chairlady of the Board, Mr. Zhang Jiantao has been appointed as a non-executive Director and Mr. Gong Peiyue has been appointed as an independent non-executive Director. Mr. Lyu Zhufeng has resigned as an executive Director and chairman of the Board. Mr. Lee Ming Tak has resigned as an independent non-executive Director. Mr. Leung Yiu Cho has been appointed as the company secretary of the Company and Ms. So Hiu Tung Miranda has resigned as the company secretary of the Company. For details please refer to the announcement of the Company dated 13 July 2021.

Save as disclosed above, there was no significant event that took place after 30 June 2021.

By Order of the Board
Universal Star (Holdings) Limited
Liang Lixia
Chairlady and Executive Director

Hong Kong, 30 August 2021