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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2346)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the "**Board**") of directors (the "**Directors**") of Universal Star (Holdings) Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019. The unaudited condensed consolidated interim financial statements have not been audited or reviewed by the Company's auditor, but have been reviewed by the audit committee of the Company (the "**Audit Committee**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(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

	Notes	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Income tax expense	*9*	**(9,642)**	(6,976)
Profit for the period		**47,080**	24,058
Other comprehensive income, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of operation outside the People's Republic of China ("**PRC**")		**(45)**	255
Other comprehensive income for the period		**(45)**	255
Total comprehensive income for the period		**47,035**	24,313
Earnings per share			
Basic and diluted	*10*	**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	*11*	**117,229**	118,085
Prepayments		**12,348**	17,223
		129,577	135,308
Current assets			
Inventories		**44,976**	38,617
Trade receivables	*12*	**116,393**	89,114
Deposits, prepayments and other receivables	*13*	**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	*14*	**1,208**	23,091
Accruals and other payables	*15*	**33,784**	46,233
Lease liabilities		**727**	216
Income tax payable		**798**	1,875
Borrowings	*16*	**26,000**	26,000
		62,517	97,415
Net current assets		**281,077**	227,815
Total assets less current liabilities		**410,654**	363,123

	Notes	**30 June 2020** *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
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		**43,024**	43,024
Reserves		**358,228**	311,193
Total equity		**401,252**	354,217

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1 GENERAL INFORMATION

Universal Star (Holdings) Limited 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 Group are production and sales of sintered NdFeB magnetic materials, also known as neodymium magnet.

At the date of this announcement, in the opinion of the Directors, 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 34 ("**HKAS 34**"), issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirement of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). These condensed consolidated financial statements were approved for issue by the Board 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.

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	2019
	RMB'000	*RMB'000*
	(Unaudited)	(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.

(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.

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

9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(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 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	2019
	(Unaudited)	(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.

11 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 16).

12 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.

13 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.

14 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.

15 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 *(note)*	**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.

16 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

(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	As at 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(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	As at 31 December 2019
	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).

17 DIVIDENDS

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

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.

2. 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.

3. 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.

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.

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.

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 16 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.

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**
	%	*HK$ million*	*HK$ million*	*HK$ million*
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

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 announcement.

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.

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. 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 Limited, a company wholly-owned by Mr. Lyu Zhufeng, arising from enforcement of margin financings in respect of the shares held by Wind Lv Limited. 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.

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 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, CEO and Executive Director

Hong Kong, 31 August 2020

As at the date of this announcement, the Board comprises Mr. Lyu Zhufeng as the executive Director; Mr. Lu Qingxing as the non-executive Director; and Mr. Fan Chun Wah, Andrew, J.P., Mr. Yan Aru and Mr. Lee Ming Tak as the independent non-executive Directors.