

Shinelong Automotive Lightweight Application Limited

勳龍汽車輕量化應用有限公司

(Incorporated in Cayman Islands with limited liability)

Stock Code : 1930

2022

INTERIM REPORT



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Wan-Yi (*Chairman*)

Mr. Yung Chia-Pu

Mr. Cheng Ching-Long

Mr. Lu Jen-Chieh

Non-executive Director

Ms. Hsieh Pei-Chen

Independent Non-executive Directors

Mr. So George Siu Ming

Mr. Lin Lien-Hsing

Mr. Fan Chi Chiu

BOARD COMMITTEES

Audit Committee

Mr. So George Siu Ming (*Committee chairman*)

Mr. Lin Lien-Hsing

Mr. Fan Chi Chiu

Remuneration Committee

Mr. Lin Lien-Hsing (*Committee chairman*)

Mr. Lin Wan-Yi

Mr. Fan Chi Chiu

Nomination Committee

Mr. Lin Wan-Yi (*Committee chairman*)

Mr. So George Siu Ming

Mr. Lin Lien-Hsing

Environmental, Social and Governance Committee

Mr. Cheng Ching-Long (*Committee chairman*)

Mr. Fan Chi Chiu

Mr. Lu Jen-Chieh

JOINT COMPANY SECRETARIES

Ms. Shen Xuejuan

Ms. Lam Nim Chi

(resigned with effect from 28 June 2022)

AUTHORISED REPRESENTATIVES

Mr. Lin Wan-Yi

Ms. Shen Xuejuan

(appointed with effect from 28 June 2022)

Ms. Lam Nim Chi

(resigned with effect from 28 June 2022)

AUDITOR

Ernst & Young

Certified Public Accountants

Registered Public Interest Entity Auditor

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Cricket Square, Hutchins Drive

PO Box 2681, Grand Cayman

KY1-1111 Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN THE PRC

2 Middle Yangguang Road

Zhangpu Town, Kunshan City

Jiangsu Province

the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place

348 Kwun Tong Road, Kowloon

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

17/F, Far East Finance Centre

16 Harcourt Road

Hong Kong

INVESTOR RELATIONS

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WEBSITE

www.shinlone.com.cn

STOCK CODE

1930

Corporate Information

LISTING INFORMATION

Equity Securities

The ordinary shares of Shinelong Automotive Lightweight Application Limited (the “**Company**”) (the “**Shares**”) (stock code: 1930) are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”).

DESPATCH OF CORPORATE COMMUNICATIONS

This interim report (both Chinese and English versions) will be delivered to shareholders of the Company. This interim report is also published on the Company’s website (www.shinlone.com.cn) and the Hong Kong Stock Exchange’s website (www.hkexnews.hk).

For environmental protection reasons, the Company encourages the shareholders of the Company to view this interim report posted on the aforesaid websites where possible.



Financial Summary

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

	For the six months ended 30 June		
	2022	2021	Change
Revenue (RMB'000)	82,340	96,050	-14.3%
Gross profit (RMB'000)	20,212	24,793	-18.5%
Gross profit margin	24.5%	25.8%	-1.3 percentage points
Net profit attributable to owners of the Company (RMB'000)	7,778	8,744	-11.0%
Net profit margin	9.4%	9.1%	0.3 percentage points
Basic earnings per share (RMB cents)	1.2	1.3	-7.7%
Diluted earnings per share (RMB cents)	1.2	1.3	-7.7%

SUMMARY OF THE INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at	As at	Change
	30 June 2022	31 December 2021	
Total assets (RMB'000)	521,841	491,607	6.2%
Cash and cash equivalents (RMB'000)	111,508	98,071	13.7%
Total liabilities (RMB'000)	211,210	189,548	11.4%
Total equity (RMB'000)	310,631	302,059	2.8%
Return on equity	2.5%	7.0%	-4.5 percentage points
Return on total assets	1.5%	4.3%	-2.8 percentage points

Management Discussion and Analysis

BUSINESS REVIEW

The Company and its subsidiaries (together, the “**Group**”) is a developer and major supplier of customised moulds in the People’s Republic of China (the “**PRC**”), with a focus on moulds for the production of automotive parts which cater for the growing trend of automotive lightweight application, as well as electrical appliance parts and other parts. The Group seeks to offer comprehensive moulding services and solutions to the customers, covering product analysis, mould design and development; mould fabrication, assembling, testing and adjustment; trial production and aftersales services.

In the first half of 2022, automobile production was still affected by shortage of chips supply and recurrence of COVID-19 epidemic in some areas in the PRC. The production and sales of automobiles in the PRC decreased by 3.7% and 6.6% year-on-year, respectively, among which the proportion of new energy vehicles continued to increase.

Retail sales of household electrical appliances in the PRC fell in the first half of 2022 due to the impact of the recurrence of COVID-19 epidemic and sluggish demand. The competition in the market of electrical appliance moulds is fierce.

During March and April 2022, the outbreak of COVID-19 in Shanghai, the PRC was particularly severe. The principal subsidiary of the Group, which is located in area neighboring Shanghai, was also affected by lockdown measures and disrupted logistics in short term due to COVID-19 pandemic situations. The Group has put in place measures to reduce the impact arising from COVID-19 pandemic, and Chinese government has also actively taken measures to promote production resumption, ensure smooth logistics and launched a series of measures to promote consumption and stabilise economic growth to stimulate market vitality.

The revenue of the Group for the six months ended 30 June 2022 (the “**1H2022**”) amounted to approximately RMB82.3 million, representing a decrease of approximately RMB13.8 million or 14.3% as compared with that of approximately RMB96.1 million for the six months ended 30 June 2021 (the “**1H2021**”). Such decrease was mainly due to the decrease in revenue generated from the sales of electrical appliance moulds of the Group, which was partially offset by an increase in revenue generated from sales of automotive moulds. Profit attributable to owners of the Company for 1H2022 amounted to approximately RMB7.8 million, representing a decrease of 11.0% as compared with that of approximately RMB8.7 million for 1H2021. Such decrease was mainly due to the increase in the inventory impairment allowances for work-in-progress of automotive moulds and lower gross profit margin from the sales of electrical appliance moulds as compared with the corresponding period of last year.

OUTLOOK

International tensions and the outbreak of COVID-19 brought negative impact on global economic growth, instability and uncertainties have increased significantly, exerting certain pressure on the operation of the Group. The shortage of chips supply in automotive industry still exists, while with a series of measures taken by Chinese government to stabilise economic growth and promote the consumption of automobiles and electrical appliances, consumer confidence in the markets is expected to recover. Although the automotive moulds market faces many challenges, the rapid growth of new energy vehicle market in the PRC also brings opportunities for automotive hot-pressing moulds market which the Group focuses on, and it is expected that fierce competition could remain in the electrical appliance moulds market.

Management Discussion and Analysis

The Group will continuously monitor macroeconomic development and risks, and formulate business strategies based on changes in the market and operation environment. While preventing and controlling operational risks, the Group will strive to seize business opportunities, improve production capabilities and production efficiency. In the second half of 2022, the Group will carry out the construction works of a new plant to strive to realise the Group's expansion plan and centralize operation management.

FINANCIAL REVIEW

Revenue

The revenue of the Group amounted to approximately RMB82.3 million for 1H2022, representing a decrease of approximately RMB13.8 million or 14.3% as compared with that of approximately RMB96.1 million for 1H2021.

The following table sets forth a breakdown of the revenue of the Group by business segment:

	For the six months ended 30 June		
	2022 RMB'000	2021 RMB'000	Change %
Sales of moulds			
Automotive moulds	61,009	45,149	35.1
Electrical appliance moulds	10,550	40,461	-73.9
Other moulds	1,321	1,865	-29.2
Sub-total	72,880	87,475	-16.7
Parts processing services	8,979	7,799	15.1
Other sundry income	481	776	-38.0
Total	82,340	96,050	-14.3

(i) Sales of moulds

The Group principally engages in the design, development, manufacture and sales of customised hot-pressing moulds, hydroforming moulds and injection moulds which are used in auto manufacturing. Apart from automotive moulds, the Group also engages in the design, development, manufacture and sales of customised plastic moulds for the production of electrical appliance parts. Sales of moulds accounted for approximately 88.5% of the Group's revenue for 1H2022.

The revenue generated from sales of automotive moulds for 1H2022 amounted to approximately RMB61.0 million, representing an increase of approximately RMB15.9 million or 35.1% as compared with that of approximately RMB45.1 million for 1H2021. Such increase was primarily due to an increase of amounts in the final acceptance reports received from one of the Group's major customers as compared with the same period of last year.

Management Discussion and Analysis

The revenue generated from sales of electrical appliance moulds for 1H2022 amounted to approximately RMB10.6 million, representing a decrease of approximately RMB29.9 million or 73.9% as compared with that of approximately RMB40.5 million for 1H2021. Such decrease was primarily due to the decrease in revenue generated from one of the Group's major customers during the reporting period, which was resulted from the decrease in orders received by the Group due to the decrease in new products development of this customer which was affected by the shortage of chips supply.

(ii) Parts processing services

Parts processing services principally include services provided to the customers for (i) modification of moulds the Group manufactured and sold; and (ii) processing machine parts that are used in automotive moulds and electrical appliance moulds. The revenue generated from parts processing services for 1H2022 amounted to approximately RMB9.0 million, representing an increase of approximately RMB1.2 million or 15.1% as compared with that of approximately RMB7.8 million for 1H2021. Such increase was primarily due to the increase in revenue generated from automotive parts processing services of the Group.

Cost of sales

The Group's cost of sales primarily consists of direct materials, direct labour, manufacturing overhead and subcontracting expenses. The major raw materials used by the Group in the production of moulds include, among others, mould steel, mould parts, hot runner and mould base.

The cost of sales of the Group for 1H2022 amounted to approximately RMB62.1 million, representing a decrease of approximately RMB9.2 million or 12.8% as compared with that of approximately RMB71.3 million for 1H2021. Such decrease was mainly due to the decrease in revenue generated from electrical appliance moulds which resulted in a decrease in the cost of sales accordingly.

Gross profit and gross profit margin

The gross profit of the Group for 1H2022 amounted to approximately RMB20.2 million, representing a decrease of approximately RMB4.6 million or 18.5% as compared with that of approximately RMB24.8 million for 1H2021. The gross profit margin decreased from approximately 25.8% for 1H2021 to approximately 24.5% for 1H2022, which was mainly attributable to (i) an increase in the inventory impairment allowances for work-in-progress of automotive moulds in 1H2022 as compared with the corresponding period of last year; (ii) lower gross profit margin of sales to one of the Group's major electrical appliance moulds customers due to intense competition.

Other income and gains

The other income and gains of the Group mainly consisted of government grants, interest income, income from asset disposal and exchange gains and losses. The amount remained relatively stable for 1H2021 and 1H2022.

Management Discussion and Analysis

Selling and distribution expenses

The selling and distribution expenses of the Group mainly consisted of staff costs for sales staff, provision for warranty and logistics expenses for delivery of moulds to customers. The amount increased from approximately RMB2.2 million for 1H2021 to approximately RMB3.1 million for 1H2022, representing an increase of approximately RMB0.9 million or 38.7%. Such increase was mainly due to the increase in provision for warranty and logistics expenses.

General and administrative expenses

The general and administrative expenses of the Group for 1H2022 amounted to approximately RMB9.5 million, representing a decrease of approximately RMB4.1 million or 30.2% as compared with that of approximately RMB13.6 million for 1H2021. The decrease was mainly due to (i) the decrease in impairment losses for trade and notes receivables of approximately RMB1.4 million, which was mainly due to the timely settlement of trade receivables by the Group's customers; (ii) the decrease in research and development costs of approximately RMB2.1 million compared with the corresponding period of last year, which was primarily due to the effect of COVID-19 epidemic situation; and (iii) the decrease in consulting fees of approximately RMB1.0 million compared with the corresponding period of last year.

Finance costs

The finance costs of the Group mainly consisted of interest expenses on lease liabilities and discounted note receivable. The amount remained relatively stable for 1H2021 and 1H2022.

Income tax expenses and effective tax rate

The income tax expenses of the Group decreased from approximately RMB1.6 million for 1H2021 to approximately RMB1.4 million for 1H2022. The effective tax rate, representing income tax expense divided by profit before taxation, were 15.7% and 14.9% for 1H2021 and 1H2022, respectively.

Net profit and net profit margin

The Group recorded net profit of approximately RMB8.7 million and approximately RMB7.7 million for 1H2021 and 1H2022, with a net profit margin of approximately 9.1% and 9.4%, respectively. The increase in net profit margin for 1H2022 was mainly due to the decrease in the general and administrative expenses of the Group as explained above.

Interim dividends

The Company did not declare any interim dividends during 1H2022.

Liquidity and Financial Resources

For 1H2022, the Group's operations were primarily financed through its operating activities. The Group derived its cash inflow from operating activities primarily through the receipt of payments from the customers in relation to the sales of moulds and parts processing services. The Group's cash outflows from operating activities primarily comprised payments for purchases of raw materials, direct labour costs, subcontracting fees to third-party contractors and operating expenses such as staff costs.

Management Discussion and Analysis

As at 30 June 2022, the Group's total current assets and current liabilities were approximately RMB418.4 million (31 December 2021: approximately RMB386.3 million) and approximately RMB199.9 million (31 December 2021: approximately RMB175.7 million), respectively, while the current ratio was approximately 2.1 times (31 December 2021: approximately 2.2 times). The increase in total current assets as at 30 June 2022 as compared to that as at 31 December 2021 was mainly due to the net effects of (i) the increase in inventories; (ii) the increase in the balance of cash and cash equivalents; and (iii) the decrease in trade and notes receivables. As at 30 June 2022, the Group had cash and cash equivalents amounting to approximately RMB111.5 million (31 December 2021: approximately RMB98.1 million).

As at 30 June 2022, the Group's gearing ratio was approximately 6.1% (31 December 2021: approximately 4.6%), which was calculated based on interest-bearing liabilities divided by total equity.

Going forward, the Group expects to fund its future operations and expansion plans primarily with listing proceeds and cash generated from operations and borrowings.

Reserves and Capital Structure

As at 30 June 2022, the Group's total equity was approximately RMB310.6 million (31 December 2021: approximately RMB302.1 million), which represented share capital of approximately RMB5.8 million (31 December 2021: share capital of approximately RMB5.8 million) and reserves of approximately RMB305.2 million (31 December 2021: approximately RMB296.7 million), treasury shares of approximately RMB0.7 million (31 December 2021: approximately RMB0.7 million) and non-controlling interests of approximately RMB0.4 million (31 December 2021: approximately RMB0.3 million). The increase in total equity was primarily due to the net profit recorded for 1H2022.

Capital Expenditure and Commitments

The Group's capital expenditure in 1H2022 primarily comprised expenditure on construction in progress and equipments and amounted to a total of approximately RMB9.6 million (31 December 2021: approximately RMB8.7 million).

As at 30 June 2022, the Group had capital commitments of approximately RMB17.2 million (31 December 2021: approximately RMB13.9 million) which mainly represented purchase of machinery.

Property, Plant and Equipment

The Group's property, plant and equipment mainly comprised of buildings, machinery, furniture, fixtures and equipment, leasehold improvements and motor vehicles. As at 30 June 2022, the Group's property, plant and equipment amounted to approximately RMB66.9 million (31 December 2021: approximately RMB70.9 million).

Inventories

The Group's inventories comprised (i) raw materials and low-value consumables used in production; (ii) work-in-progress for products being manufactured in the production plants; and (iii) finished goods which comprised moulds that had only passed the customers' initial inspection for which the Group had not received their final acceptance reports. As at 30 June 2022, the Group's inventories amounted to approximately RMB223.0 million (31 December 2021: approximately RMB182.2 million). Such increase was mainly due to the increase in orders for automotive moulds received by the Group in the second half of 2021 and during the reporting period.

Management Discussion and Analysis

Trade and notes receivables

The Group's trade and notes receivables represented amounts receivable from customers in relation to the sales of moulds and parts processing services. The Group's notes receivables were issued by the customers with which the Group could receive the amount at a fixed future date, or could readily be discounted into cash at an expense of finance charge. As at 30 June 2022, the Group's trade and notes receivables amounted to approximately RMB79.2 million (31 December 2021: approximately RMB95.7 million). Such decrease was mainly due to the combined effects of (i) an increase in final acceptance reports of automotive moulds and electrical appliance moulds received by the Group in the second half of 2021, which were concentrated in the fourth quarter, resulting in an increase in balance of trade receivables in the end of 2021; (ii) the timely settlement of trade receivables by the Group's customers in 1H2022.

Since the outbreak of COVID-19 in the first half of 2020, the Group had strengthened the internal control measures on its assessment of expected credit losses on trade receivables, reviewed the trade receivables ageing regularly and assessed the customers individually for provision for expected credit loss allowance which take into account the historical settlement pattern, communications with the customers, and evidence from external sources including the relevant public search results relating to the financial circumstances of the relevant customers.

Trade payables

The Group's trade payables primarily consisted of payable to the suppliers in relation to the purchase of the raw materials for the manufacture of moulds, and subcontracting fees payable to third-party contractors. As at 30 June 2022, the Group's trade payables amounted to approximately RMB54.0 million (31 December 2021: approximately RMB59.8 million). Such decrease was mainly due to the decrease in purchase volume in the second quarter of 2022 as compared with that in the fourth quarter of 2021 resulting from the impact of the COVID-19 pandemic.

Contract liabilities

The Group's contract liabilities consisted of the short-term advances received to deliver moulds. Pursuant to the contract, the Group generally requires the customers to pay around 30% of the total fee when they place a purchase order and around 40% to 50% of the total fee when the moulds have been fabricated and are ready for delivery to the customers. Such payments from the customers were recorded as contract liabilities and the moulds related to these contract liabilities were recorded as work-in-progress for products being manufactured in production plants and finished goods in the Group's inventories.

After the moulds have passed the customers' final inspection and examination, the customers would issue final acceptance reports to the Group, at which time, the Group would recognise the sales and reverse the related contract liabilities and record the remaining balance of around 20% to 30% of the total fee as trade receivables.

As at 30 June 2022, the Group's contract liabilities amounted to approximately RMB117.6 million (31 December 2021: approximately RMB92.5 million), most of which represented payments from the customers for moulds that had passed their initial inspection but for which the Group had not received their final acceptance reports.

Management Discussion and Analysis

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2022, the Group had 364 employees (31 December 2021: 353 employees), all of whom were in the PRC. To promote employees' knowledge and technical expertise, the Group offers training programmes to employees from time to time according to their job duties. Employees' remuneration packages are determined with reference to the market information and individual performance and will be reviewed on a regular basis. In addition to basic remuneration, the Group also makes contributions to mandatory social security funds for the benefit of the PRC employees that provide for retirement insurance, medical insurance, unemployment insurance, maternity insurance, occupational injury insurance and housing funds. The Company also maintains a share option scheme and a share award scheme, which aims to providing incentives to employees to contribute to the Group's development.

The total staff cost including remuneration, other benefits, equity-settled share reward expenses and contributions to retirement schemes for the directors of the Company (the "**Directors**") and other staff of the Group for 1H2022 amounted to approximately RMB20.9 million (1H2021: approximately RMB19.5 million). The increase in staff cost was mainly due to the increase in direct labor cost.

MATERIAL ACQUISITIONS AND DISPOSALS

During 1H2022, the Group had no material acquisitions or disposals of subsidiaries, associated companies or joint ventures.

In May 2022, Shinelong Intellectual Manufacture Precision Applied Materials (Suzhou) Company Limited* (勳龍製造精密應用材料(蘇州)股份有限公司) ("**Shinelong (Suzhou)**", a principal wholly-owned subsidiary of the Company), entered into the purchase agreement with Dees Hydraulic Industrial (Kunshan) Co., Ltd.*(迪斯油壓工業(昆山)有限公司) ("**Dees (Kunshan)**") for the purchase of the equipment at a consideration of approximately RMB8.5 million. For further details, please refer to the announcement of the Company dated 6 May 2022 and the supplemental announcement of the Company dated 10 May 2022, respectively.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group had no material contingent liabilities (as at 31 December 2021: Nil).

PLEDGES OVER GROUP'S ASSETS

As at 30 June 2022, none of the assets of the Group were pledged.

Management Discussion and Analysis

FUTURES PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Shinelong (Suzhou), a principal wholly-owned subsidiary of the Company, was established in 2002, and began its operation in the plant which was located at 2 Middle Yangguang Road, Zhangpu Town, Kunshan City, Jiangsu Province, the PRC, since 2003. With the development of business, Shinelong (Suzhou) has successively leased several plants, which are located in Zhangpu Town, Kunshan city, for mould production from third parties. The operation sites are relatively scattered, which is not optimal for effective production management. It has been the Group's intention to expand, centralise and consolidate the Group's operation. As disclosed in the announcement of the Company dated 12 November 2021, Shinelong (Suzhou) successfully bid the land use right of a piece of state-owned industrial construction land located in Zhangpu Town, Kunshan City (the "Land"). On 11 July 2022, the Group engaged the contractor to carry out the construction works of a new plant on the Land, which include construction works of research and development workshop, assembly workshop, CNC workshop, research and development and office building, and hazardous waste warehouse etc. ("**Construction Works**") at the consideration of approximately RMB77.0 million, subject to the adjustment on the raw materials price difference; design change issued by the designer; and/or valid on-site permit approved by Shinelong (Suzhou). The consideration will be funded by the internal resources and banking facilities of the Group. It is expected that the Construction Works will be completed in 2023. For further details, please refer to the announcement of the Company dated 11 July 2022 and the circular of the Company dated 10 August 2022, respectively.

In addition, the Group will formulate and implement plans on decoration, gardening, elevators, cranes and other related works for the new plant, and the Company will make further announcement(s) in relation to this matter when required in compliance with the requirements under the Listing Rules.

On 22 July 2022, Shinelong (Suzhou) entered into the purchase agreement with Dees (Kunshan) for the purchase of the equipment at a consideration of approximately RMB19.3 million. Payment of the consideration will be funded by the net proceeds from the initial public offering of the shares of the Company on 28 June 2019 and cash generated from the Group's operation. For further details, please refer to the announcement of the Company dated 22 July 2022.

SIGNIFICANT INVESTMENTS HELD

The Group did not have any significant investments held as at 30 June 2022.

FOREIGN CURRENCY EXPOSURE

Since the Group generated most of the revenue and incurred most of the costs in Renminbi for 1H2022, there was no significant exposure to foreign exchange rate and the Group did not maintain any hedging policy against foreign exchange risk. The management will consider hedging significant currency exposure should the need arise.

Management Discussion and Analysis

USE OF PROCEEDS

The net proceeds from the Listing (the “**Net Proceeds**”), after deducting the underwriting fees and other related expenses in connection with the Listing, was approximately HK\$95.6 million. The Company intends to apply the Net Proceeds in accordance with the proposed application as set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

The following table sets out the utilisation of the Net Proceeds as at 30 June 2022:

	Percentage of Net Proceeds	Net Proceeds from the global offering HK\$' million	Utilised up to 30 June 2022 HK\$' million	Unutilised as at 30 June 2022 HK\$' million	Expected timeline for full utilisation
Lease the premises for new factory	4.0%	3.8	3.8	–	–
General set up costs of the factory	3.2%	3.1	2.4	0.7	By the end of 2022
Purchase new production equipment	76.3%	72.9	36.5	36.4	By the end of 2023
Purchase softwares	6.5%	6.2	4.1	2.1	By the end of 2023
Supplement working capital	10.0%	9.6	9.6	–	–
		95.6	56.4	39.2	

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the Net Proceeds were applied based on the actual development of the Group’s business and the industry. The Directors regularly evaluate the Group’s business objectives and may change or modify plans against the changing market condition to ascertain the business growth of the Group. The Directors currently expected that the unutilised Net Proceeds would be used in accordance with the Company’s plan as disclosed in the Prospectus and there was no material change in the use of the Net Proceeds.

The expected timeline of utilisation of the unutilised Net Proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of the Group’s business and the market conditions.

As at 30 June 2022, the unutilised Net Proceeds of approximately HK\$39.2 million have been placed as interest bearing deposits with licensed banks in Hong Kong.

Corporate Governance

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the “**Board**”) is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders of the Company, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 of the Listing Rules as the basis of the Company’s corporate governance practices.

The Board is of the view that, during 1H2022 and up to the date of this report, the Company has complied with all the code provisions as set out in the CG Code, except for code provisions C.2.1 and F.2.2 as set out below:

Pursuant to code provision C.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Group does not have a separate chairman and chief executive officer and Mr. Lin Wan-Yi 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 consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. Given that (i) all material decisions are approved by the Board, which currently comprises 4 executive Directors (including Mr. Lin Wan-Yi), 1 non-executive Director and 3 independent non-executive Directors; and (ii) the Directors proactively participate in all the board meetings and the relevant board committee meetings, and the chairman cum chief executive officer ensures all the Directors are duly informed of all the matters to be approved at the meetings, 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 of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Pursuant to code provision F.2.2 of the CG Code, the chairman of the Board should attend the annual general meeting. The chairman of the Board should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, the chairman should invite another member of the committee or failing this their duly appointed delegate, to attend. Mr. Lin Lien-Hsing, chairman of the Remuneration Committee was unable to attend the annual general meeting (the “**AGM**”) of the Company held on 22 June 2022 due to his other work commitment while the other members of the Remuneration Committee have attended the AGM.

The Company has also put in place certain recommended best practices as set out in the CG Code.

Corporate Governance

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

As at 30 June 2022, the interests or short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")), which (i) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be recorded in the register therein; or (iii) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(i) Interests in the Company

Name of Director	Nature of interest	Number of ordinary shares held ^(Note 1)	Approximate percentage of shareholding
Mr. Lin Wan-Yi	Interest in a controlled corporation ^(Note 2)	324,225,000 (L)	49.125%
Mr. Lin Wan-Yi	Beneficial owner ^(Note 3)	2,654,000 (L)	0.40%
Mr. Cheng Ching-Long	Beneficial owner ^(Note 4)	1,408,000 (L)	0.21%
Mr. Lu Jen-Chieh	Beneficial owner ^(Note 5)	688,000 (L)	0.10%

Notes:

- The letter "L" denotes the person's long position in the shares.
- The Company was directly owned as to 49.125% by Shine Art International Limited ("Shine Art") which was directly held as to 58.312% by Mr. Lin Wan-Yi ("Mr. Lin"). Accordingly, by virtue of the SFO, Mr. Lin is deemed to be interested in the same number of shares of the Company held by Shine Art.
- Included 1,239,600 Shares which were directly held by Mr. Lin, 832,000 share options and 582,400 unvested awarded shares. Details of the share options and awarded shares are set out in the section headed "SHARE OPTION SCHEME" and "SHARE AWARD SCHEME" of this report, respectively.
- Included 211,200 Shares which were directly held by Mr. Cheng Ching-Long, 704,000 share options and 492,800 unvested awarded shares. Details of the share options and awarded shares are set out in the section headed "SHARE OPTION SCHEME" and "SHARE AWARD SCHEME" of this report, respectively.
- Included 103,200 Shares which were directly held by Mr. Lu Jen-Chieh, 344,000 share options and 240,800 unvested awarded shares. Details of the share options and awarded shares are set out in the section headed "SHARE OPTION SCHEME" and "SHARE AWARD SCHEME" of this report, respectively.

Corporate Governance

(ii) Interests in the associated corporation

Name of Director	Name of associated corporation	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding in the associated corporation	Approximate percentage of shareholding in the Company
Mr. Lin	Shine Art	Beneficial owner	29,156	58.312%	28.646%
Mr. Yung Chia-Pu	Shine Art	Beneficial owner	7,712	15.424%	7.577%
Mr. Cheng Ching-Long	Shine Art	Beneficial owner	7,468	14.936%	7.337%
Mr. Lu Jen-Chieh	Shine Art	Beneficial owner	467	0.934%	0.459%
Ms. Hsieh Pei-Chen	Shine Art	Beneficial owner	454	0.908%	0.446%

Save as disclosed above and so far as is known to the Directors, as at 30 June 2022, none of the Directors or chief executives of the Company had or was deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Corporate Governance

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

So far as is known to the Directors, as at 30 June 2022, the following persons (not being Directors or chief executives of the Company) had, or were deemed to have, interests or shorts positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder	Nature of interest	Number of ordinary shares held ^(Note 1)	Approximate percentage of shareholding
Shine Art	Beneficial owner	324,225,000 (L)	49.125%
Friendly Holdings (HK) Co., Limited	Beneficial owner	91,080,000 (L)	13.80%
Mr. Liu Fang Jung	Interest in a controlled corporation ^(Note 2)	91,080,000 (L)	13.80%
Ms. Su Su-Mei	Interest of spouse ^(Note 3)	326,879,000 (L)	49.52%

Notes:

1. The letter "L" denotes the person's long position in the shares.
2. The Company was directly owned as to 13.80% by Friendly Holdings (HK) Co., Limited ("**Friendly Holdings**") which was directly held as to 100% by Mr. Liu Fang Jung ("**Mr. Liu**"). Accordingly, by virtue of the SFO, Mr. Liu is deemed to be interested in the same number of shares of the Company held by Friendly Holdings.
3. Ms. Su Su-Mei ("**Ms. Su**") is the spouse of Mr. Lin. Under the SFO, Ms. Su is deemed to be interested in the same number of shares of the Company in which Mr. Lin is interested.

Save as disclosed above, as at 30 June 2022, the Directors and the chief executives of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

During 1H2022 and up to the date of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “Share Option Scheme”) on 6 June 2019. The principal terms of the Share Option Scheme were summarised in the section headed “Share Option Scheme” in Appendix IV of the Prospectus. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

On 18 May 2021, under the Share Option Scheme, the Company granted options to its employees, including executive Directors, to subscribe for up to a total of 9,248,000 ordinary shares with the nominal value of HK\$0.01 per share. The share options have a term of 5 years from the date of grant, and exercise price is HK\$0.405. No options have been exercised up to 30 June 2022.

Further information of the share options is set out in Note 24 to the Financial Statements and details of the movement of the share options during 1H2022 are set out in the table as follows:

Category of participants	Grant date	Exercise period	Exercise price ^(Note 1)	Outstanding	Number of share options				Outstanding
				as at 1 January 2022	Granted during 1H2022	Exercised during 1H2022	Canceled during 1H2022	Lapsed during 1H2022	as at 30 June 2022
Directors of the Company or its subsidiary									
Mr. Lin	18 May 2021	18 May 2022– 17 May 2026	HK\$0.405	832,000	–	–	–	–	832,000
Mr. Cheng Ching-Long	18 May 2021	18 May 2022– 17 May 2026	HK\$0.405	704,000	–	–	–	–	704,000
Mr. Lu Jen-Chieh	18 May 2021	18 May 2022– 17 May 2026	HK\$0.405	344,000	–	–	–	–	344,000
Mr. Chen Ming-Chih	18 May 2021	18 May 2022– 17 May 2026	HK\$0.405	492,000	–	–	–	–	492,000
Subtotal				2,372,000	–	–	–	–	2,372,000
Other employees of the Group	18 May 2021	18 May 2022– 17 May 2026	HK\$0.405	6,876,000	–	–	–	–	6,876,000
Total				9,248,000 ^(Note 2)	–	–	–	–	9,248,000

Corporate Governance

Notes:

- The closing price of the Shares immediately before the date of grant (being 18 May 2021) was HK\$0.41 per Share.
- 9,248,000 options were granted on 18 May 2021 under the Share Option Scheme, subject to the satisfaction of the vesting criteria and conditions. The share options will be vested to the grantees in the following manner:
 - 2,774,400 options shall be vested during the period commencing from 18 May 2022 and ending on 17 May 2023;
 - 2,774,400 options shall be vested during the period commencing from 18 May 2023 and ending on 17 May 2024; and
 - 3,699,200 options shall be vested during the period commencing from 18 May 2024 and ending on 17 May 2025.

As at the date of this report, 784,000 share options granted under the Share Option Scheme were lapsed, the number of share options that could still be granted under the Share Option Scheme was 57,536,000, representing approximately 8.72% of the 660,000,000 Shares in issue on the date of the Listing.

SHARE AWARD SCHEME

The Company has adopted a share award scheme on 18 May 2021 (the “**Share Award Scheme**”), pursuant to which the Company may grant awarded shares to the selected participants. The purposes of the Share Award Scheme are: (i) to recognise and reward the contributions of certain eligible persons (including Director(s), senior management and/or employee(s), whether full-time or part-time, of the Group from time to time), and to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group. The Share Award Scheme shall be valid and effective for ten (10) years from the adoption date unless early terminated by the Board in accordance with the scheme rules.

Further information of the awarded shares granted pursuant to the Share Award Scheme is set out in Note 24 to the Financial Statements and the details of the movement of the awarded shares during 1H2022 are set out in the table as follows:

Category of participants	Grant date	Outstanding	Number of awarded shares			Outstanding
		as at 1 January 2022	Granted during 1H2022	Vested during 1H2022	Lapsed during 1H2022	as at 30 June 2022
Director of the Company or its subsidiary						
Mr. Lin	18 May 2021	582,400	–	–	–	582,400
Mr. Cheng Ching-Long	18 May 2021	492,800	–	–	–	492,800
Mr. Lu Jen-Chieh	18 May 2021	240,800	–	–	–	240,800
Mr. Chen Ming-Chih	18 May 2021	344,400	–	–	–	344,400
Subtotal		1,660,400	–	–	–	1,660,400
Other employees of the Group	18 May 2021	4,813,200	–	–	–	4,813,200
Total		6,473,600	–	–	–	6,473,600

Corporate Governance

AUDIT COMMITTEE

The Company has an Audit Committee with written terms of reference in compliance with Rule 3.22 of the Listing Rules and code provision D.3.3 of the CG Code. The Audit Committee consists of three independent non-executive Directors, namely Mr. So George Siu Ming, Mr. Lin Lien-Hsing and Mr. Fan Chi Chiu. The Group's unaudited consolidated interim results for 1H2022 have been reviewed by the Audit Committee. The Audit Committee has no disagreement with the accounting treatment adopted by the Company.

Ernst & Young, the Company's auditor, has reviewed the unaudited consolidated interim results of the Group for 1H2022 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND EMPLOYEES

The Company has adopted the Model Code and specific enquiry has been made of all the Directors and they have confirmed that they have complied with the Model Code during 1H2022 and up to the date of this report.

The Company has also adopted Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Model Code by the employees was noted by the Company during 1H2022 and up to the date of this report.

UPDATES ON DIRECTORS' INFORMATION

As required under Rule 13.51B(1) of the Listing Rules, the changes in Directors' biographical details since the date of 2021 annual report and up to the date of this report are set out below:

Mr. Lin Lien-Hsing, an independent non-executive Director of the Company, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Board, has been appointed as an independent director of Shanghai Karon Eco-Valve Manufacturing Co., Ltd. (上海冠龍閥門節能設備股份有限公司) (stock code: 301151), a company listed on the Shenzhen Stock Exchange in April 2022.

Save as those disclosed above, there is no other information of the Directors which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for 1H2022 (for 1H2021: Nil).

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

For the six months ended 30 June 2022

	Notes	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
REVENUE	4	82,340	96,050
Cost of sales		(62,128)	(71,257)
Gross profit		20,212	24,793
Other income and gains, net		1,817	1,729
Selling and distribution expenses		(3,088)	(2,226)
General and administrative expenses		(9,507)	(13,626)
Finance costs		(380)	(353)
PROFIT BEFORE TAX	5	9,054	10,317
Income tax expense	6	(1,352)	(1,621)
PROFIT FOR THE PERIOD		7,702	8,696
Attributable to:			
Owners of the Company		7,778	8,744
Non-controlling interests		(76)	(48)
		7,702	8,696
OTHER COMPREHENSIVE INCOME/(LOSS)			
Changes in fair value of debt investments at fair value through other comprehensive income		158	101
Exchange differences on translation of foreign operations		1,829	(496)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		1,987	(395)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		9,689	8,301

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income *(Continued)*

For the six months ended 30 June 2022

	Notes	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Attributable to:			
Owners of the Company		9,765	8,349
Non-controlling interests		(76)	(48)
		9,689	8,301
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (in RMB cent per share)			
Basic	8		
— For profit for the period		1.2	1.3
Diluted			
— For profit for the period		1.2	1.3

Interim Condensed Consolidated Statement of Financial Position

30 June 2022

	Notes	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	66,935	70,940
Right-of-use assets	10	21,244	16,969
Intangible assets	11	1,502	1,738
Prepayments, other receivables and other assets	14	8,514	10,434
Deferred tax assets		2,703	2,497
Net investments in subleases		410	598
Restricted bank deposits	15	2,085	2,085
Total non-current assets		103,393	105,261
CURRENT ASSETS			
Inventories	12	223,005	182,222
Trade and notes receivables	13	79,156	95,744
Prepayments, other receivables and other assets	14	3,551	9,434
Net investments in subleases		382	180
Restricted bank deposits	15	846	695
Cash and cash equivalents	15	111,508	98,071
Total current assets		418,448	386,346
CURRENT LIABILITIES			
Trade payables	16	53,953	59,822
Other payables and accruals	17	11,771	14,962
Government grants	21	2,055	2,107
Contract liabilities	18	117,602	92,542
Other borrowing	19	6,938	–
Dividends payable	7	1,538	–
Lease liabilities	20	3,913	4,508
Income tax payable		2,150	1,770
Total current liabilities		199,920	175,711
NET CURRENT ASSETS		218,528	210,635
TOTAL ASSETS LESS CURRENT LIABILITIES		321,921	315,896

Interim Condensed Consolidated Statement of Financial Position *(Continued)*

30 June 2022

	Notes	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Government grants	21	3,127	4,148
Deferred tax liabilities		68	171
Lease liabilities	20	8,095	9,518
Total non-current liabilities		11,290	13,837
Net assets		310,631	302,059
EQUITY			
Equity attributable to the owners of the Company			
Share capital	22	5,806	5,806
Treasury shares	23	(724)	(724)
Reserves		305,158	296,660
		310,240	301,742
Non-controlling interests		391	317
Total equity		310,631	302,059

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

	Attributable to the owners of the Company											Total equity RMB'000
	Share capital RMB'000	Treasury shares RMB'000	Share premium* RMB'000	Merger reserve* RMB'000	Share-based compensation reserve* RMB'000	Statutory reserve* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Exchange reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	
As at 1 January 2022 (audited)	5,806	(724)	101,043	52,302	339	19,483	(200)	(2,894)	126,587	301,742	317	302,059
Profit/(loss) for the period	-	-	-	-	-	-	-	-	7,778	7,778	(76)	7,702
Other comprehensive income/(loss) for the period:												
Changes in fair value of debt investments at fair value through other comprehensive income	-	-	-	-	-	-	158	-	-	158	-	158
Currency translation differences	-	-	-	-	-	-	-	1,829	-	1,829	-	1,829
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	158	1,829	7,778	9,765	(76)	9,689
Final 2021 dividend declared (Note 7)	-	-	-	-	-	-	-	-	(1,538)	(1,538)	-	(1,538)
Equity-settled share reward expense (Note 24)	-	-	-	-	271	-	-	-	-	271	-	271
Capital contribution from a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	150	150
As at 30 June 2022 (unaudited)	5,806	(724)	101,043	52,302	610	19,483	(42)	(1,065)	132,827	310,240	391	310,631

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

For the six months ended 30 June 2022

	Attributable to the owners of the Company										Total equity RMB'000
	Share capital RMB'000	Share premium* RMB'000	Merger reserve* RMB'000	Share-based compensation reserve* RMB'000	Statutory reserve* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Exchange reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	
As at 1 January 2021 (audited)	5,806	100,972	52,302	-	16,947	(303)	(1,512)	109,967	284,179	279	284,458
Profit/(loss) for the period	-	-	-	-	-	-	-	8,744	8,744	(48)	8,696
Other comprehensive income/(loss) for the period:											
Changes in fair value of debt investments at fair value through other comprehensive income	-	-	-	-	-	101	-	-	101	-	101
Currency translation differences	-	-	-	-	-	-	(496)	-	(496)	-	(496)
Total comprehensive income/(loss) for the period	-	-	-	-	-	101	(496)	8,744	8,349	(48)	8,301
Final 2020 dividend declared (Note 7)	-	-	-	-	-	-	-	(2,039)	(2,039)	-	(2,039)
Equity-settled share reward expense (Note 24)	-	-	-	176	-	-	-	-	176	-	176
As at 30 June 2021 (unaudited)	5,806	100,972	52,302	176	16,947	(202)	(2,008)	116,672	290,665	231	290,896

* These reserve amounts comprise the reserves of approximately RMB305,158,000 (six months ended 30 June 2021: RMB284,859,000) in the condensed consolidated statement of financial position as at 30 June 2022.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	Notes	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		9,054	10,317
Adjustments for:			
Depreciation of property, plant and equipment	9	5,269	4,948
Amortization of intangible assets	11	574	591
Fair value gain on financial assets at fair value through profit or loss		–	(208)
Write-down of inventories to net realizable value	5	3,433	1,178
(Reversal)/recognition of impairment losses for trade and notes receivables	5	(1,420)	7
Depreciation of right-of-use assets	10	2,871	1,960
Net foreign exchange differences		288	26
Equity-settled share reward expense	24	271	176
Government grants	21	(1,073)	(261)
Interest income		(603)	(387)
Finance costs		380	353
(Gain)/loss on disposal of items of property, plant and equipment		(69)	21
		18,975	18,721
(Increase)/decrease in inventories		(44,216)	2,074
Decrease/(increase) in trade and notes receivables		18,166	(3,462)
Decrease/(increase) in prepayments, other receivables and other assets		1,365	(386)
Decrease in trade payables		(5,869)	(7,600)
Decrease in other payables and accruals		(3,191)	(4,659)
Increase/(decrease) in contract liabilities		25,060	(5,686)
Increase in restricted bank deposits		(151)	–
Cash generated from/(used in) operations		10,139	(998)
Income tax paid		(1,280)	(3,994)
Net cash flows generated from/(used in) operating activities		8,859	(4,992)

Interim Condensed Consolidated Statement of Cash Flows *(Continued)*

For the six months ended 30 June 2022

	Notes	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(6,768)	(5,152)
Purchases of items of intangible assets		(338)	(389)
Proceeds from disposal of items of property, plant and equipment		558	618
Purchases of financial assets at fair value through profit or loss		–	(38,010)
Proceeds from disposal of financial assets at fair value through profit or loss		–	38,010
Purchase of leasehold land		(211)	–
Proceeds from disposal of leasehold land		4,517	–
Cash received from returns on financial assets at fair value through profit or loss		–	208
Receipt of principal portion of finance lease payments arising from the subleases		–	186
Interests received		589	388
Net cash flows used in investing activities		(1,653)	(4,141)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceed from discounted note receivable with recourse	19	6,938	–
Payment of interest expense on discounted note receivable		(78)	–
Principal portion of lease payments	20	(2,018)	(2,064)
Interest portion of lease payments	20	(302)	(353)
Capital contribution from non-controlling shareholders		150	300
Net cash flows generated from/(used in) financing activities		4,690	(2,117)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period	15	98,071	95,918
Effect of foreign exchange rate changes, net		1,541	(521)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	15	111,508	84,147
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	15	111,508	84,147
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS		111,508	84,147

Notes to the Interim Financial Information

30 June 2022

1. GENERAL INFORMATION

Shinelong Automotive Lightweight Application Limited (the “Company”) is an exempted company with limited liability incorporated in the Cayman Islands on 2 October 2018. The registered office address of the Company is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively “the Group”) are involved in the provision of comprehensive moulding services and solutions, covering product analysis, mould design and development; mould fabrication, assembling, testing and adjustment; trial production and aftersales services.

The holding company of the Company is Shine Art International Limited (“Shine Art”), a company incorporated in the British Virgin Islands. The ultimate controlling shareholder of the Company is Mr. Lin Wan-Yi.

The Company’s shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”) since 28 June 2019.

The Interim Financial Information comprises the condensed consolidated statement of financial position as at 30 June 2022, the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”).

The Interim Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The Interim Financial Information has not been audited but has been reviewed by the external auditor of the Company.

Notes to the Interim Financial Information *(Continued)*

30 June 2022

1. GENERAL INFORMATION *(Continued)*

Information about subsidiaries

Particulars of the Company's major subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shinelong Intellectual Manufacture Precision Applied Materials (Suzhou) Company Limited ("Shinelong (Suzhou)") (Note (a))	PRC/Mainland China	RMB170,000,000	99.9	0.1	Design, Manufacture and sale of moulds
Qingdao Xunzhan Molding Technology Company Limited ("Xunzhan") (Note (b))	PRC/Mainland China	RMB6,000,000	–	100	Design, Manufacture and sale of moulds
Kunshan Longjun Management Consulting Company Limited ("Kunshan Longjun") (Note (b))	PRC/Mainland China	US\$50,000	100	–	Inactive
Xunhou Laser Technology (Suzhou) Company Limited ("Xunhou") (Note (c))	PRC/Mainland China	RMB10,000,000	–	70	Design, manufacture and sale of laser devices

(a) Shinelong (Suzhou) was established on 8 January 2002 under the name of Shinlong Precision Moulds (Kunshan) Company Limited as a limited liability company under the law of the PRC, which was converted to a company limited by shares on 29 March 2016 and renamed as Shinlone Intellectual Manufacture Precision Applied Materials (Suzhou) Company Limited. It was further renamed as Shinelong (Suzhou) on 28 December 2018. Shinelong (Suzhou) is a wholly owned subsidiary of the Company. Pursuant to the resolution passed by the Board of Directors of Shinelong (Suzhou) on 31 March 2022, Shinelong (Suzhou) converted RMB65,000,000 of the retained profits to increase its registered share capital from RMB105,000,000 to RMB170,000,000.

(b) Registered as limited liability companies under the PRC law.

(c) Xunhou was established on 7 April 2020 with registered share capital of RMB10,000,000 as a limited liability company under the law of the PRC, which is a 70%-owned subsidiary of Shinelong (Suzhou). The business scope of Xunhou covers medical device manufacturing, automotive parts manufacturing, intelligent control system integration and technical services. As at 30 June 2022, Xunhou received capital contributions of RMB2,800,000 from Shinelong (Suzhou) and RMB600,000 from the non-controlling shareholder, Yinwei Laser Technology (Kunshan) Company Limited.

Notes to the Interim Financial Information *(Continued)*

30 June 2022

2. BASIS OF PREPARATION

The Interim Financial Information for the six months ended 30 June 2022 has been prepared in accordance with IAS 34 Interim Financial Reporting. The Group has prepared the financial statements on the basis that it will continue to operate as a going concern. The Directors consider that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the Interim Financial Information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRSs 2018–2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The new and revised standards are not relevant to the preparation of the Interim Financial Information other than as explained below:

- a. Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

Notes to the Interim Financial Information *(Continued)*

30 June 2022

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

- b. Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- c. Annual Improvements to IFRSs 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:
- IFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - IFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

Notes to the Interim Financial Information *(Continued)*

30 June 2022

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales of moulds		
Automotive moulds	61,009	45,149
Electrical appliance moulds	10,550	40,461
Other moulds	1,321	1,865
Sub-total	72,880	87,475
Parts processing services	8,979	7,799
Other sundry income	481	776
Total	82,340	96,050
Represented by:		
Goods and services transferred at a point in time	82,340	96,050
Represented by:		
Geographic markets		
The PRC	74,960	93,828
Overseas	7,380	2,222
	82,340	96,050

Notes to the Interim Financial Information *(Continued)*

30 June 2022

5. PROFIT BEFORE TAX

	For the six months ended	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Raw materials consumed	28,835	33,972
Direct labor cost	10,745	9,604
Subcontracting expenses	9,044	12,367
Depreciation of property, plant and equipment (Note 9)	5,269	4,948
Depreciation of right-of-use assets (Note 10)	2,871	1,960
Amortization of intangible assets (Note 11)	574	591
Research and development costs	3,045	5,184
Interest on lease liabilities (Note 20)	302	353
Auditor's remuneration	600	616
Employee benefit expenses (including directors' remuneration)		
Salaries and bonuses	7,774	7,588
Equity-settled share reward expense	271	176
Pension scheme contributions	2,153	2,097
	10,198	9,861
(Reversal)/recognition of impairment losses for trade and notes receivables	(1,420)	7
Accrual/(reversal) of warranty (Note 17)	239	(597)
Write-down of inventories to net realizable value	3,433	1,178
Foreign exchange differences, net	(288)	(26)

Notes to the Interim Financial Information *(Continued)*

30 June 2022

6. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands. Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25%. During the six months ended 30 June 2022 and 2021, Shinelong (Suzhou) was qualified as a high and new technology enterprise and enjoyed a preferential income tax rate of 15%. Xunzhan was certified as a small and micro-sized enterprise ("SME") and enjoyed a 87.5% reduction in taxable income and the preferential income tax rate of 20% for the period ended 30 June 2022 and 2021 as its estimated annual taxable income is below RMB1 million.

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Current — PRC	1,490	373
Deferred — PRC	(138)	1,248
Total tax charge for the period	1,352	1,621

7. DIVIDENDS

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
At beginning of the period	—	—
Final declared — RMB0.233 cents (2021: 0.309 cents) per ordinary share	1,538	2,039
At end of the period	1,538	2,039

On 23 March 2022, the directors proposed a final dividend of RMB0.233 cents per ordinary share totalling approximately RMB1,538,000 for the year ended 31 December 2021, which was approved by the Company's shareholders at the annual general meeting on 22 June 2022.

The directors did not recommend the payment of an interim dividend for the six months ended 30 June 2022 and 2021.

Notes to the Interim Financial Information *(Continued)*

30 June 2022

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for six months ended 30 June 2022 attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares of 657,174,400 (six months ended 30 June 2021: 660,000,000) in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	7,778	8,744
	Number of shares For the six months ended 30 June	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	657,174,400	660,000,000
Effect of dilution — weighted average number of ordinary shares: Awarded shares (Note 24)	1,688,154	3,740,247
Weighted average number of ordinary shares used in the diluted earnings per share calculation	658,862,554	663,740,247

Notes to the Interim Financial Information *(Continued)*

30 June 2022

9. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2022	1,503	122,897	5,700	2,908	1,876	-	134,884
Additions	-	730	228	-	295	500	1,753
Disposals	-	(2,665)	(11)	-	(146)	-	(2,822)
At 30 June 2022	1,503	120,962	5,917	2,908	2,025	500	133,815
Accumulated depreciation							
At 1 January 2022	480	55,717	3,489	2,878	1,380	-	63,944
Depreciation charges for the period	34	4,847	311	12	65	-	5,269
Disposals	-	(2,252)	(7)	-	(74)	-	(2,333)
At 30 June 2022	514	58,312	3,793	2,890	1,371	-	66,880
Net carrying amount							
At 30 June 2022 (unaudited)	989	62,650	2,124	18	654	500	66,935

Notes to the Interim Financial Information *(Continued)*

30 June 2022

9. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings RMB'000	Machinery RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2021	6,259	105,674	4,762	2,908	1,618	11,722	132,943
Additions	–	14,206	344	–	–	(11,071)	3,479
Disposals	–	(1,789)	–	–	–	–	(1,789)
At 30 June 2021	6,259	118,091	5,106	2,908	1,618	651	134,633
Accumulated depreciation							
At 1 January 2021	4,176	47,681	2,916	2,843	1,332	–	58,948
Depreciation charges for the period	141	4,489	281	17	20	–	4,948
Disposals	–	(1,150)	–	–	–	–	(1,150)
At 30 June 2021	4,317	51,020	3,197	2,860	1,352	–	62,746
Net carrying amount							
At 30 June 2021 (unaudited)	1,942	67,071	1,909	48	266	651	71,887

Notes to the Interim Financial Information *(Continued)*

30 June 2022

10. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Factories and venues RMB'000	Parking lots RMB'000	Vehicle RMB'000	Total RMB'000
At 1 January 2022	–	16,262	279	428	16,969
Addition	7,146	–	–	–	7,146
Depreciation charges for the period	(99)	(2,610)	(26)	(136)	(2,871)
At 30 June 2022 (unaudited)	7,047	13,652	253	292	21,244

	Leasehold land RMB'000	Factories and venues RMB'000	Parking lots RMB'000	Vehicle RMB'000	Total RMB'000
At 1 January 2021	775	15,688	331	701	17,495
Depreciation charges for the period	(12)	(1,786)	(27)	(135)	(1,960)
At 30 June 2021 (unaudited)	763	13,902	304	566	15,535

On 23 November 2021, the Group and Kunshan Natural Resources and Planning Bureau (the "Transferor") entered into an agreement (the "Transfer Agreement") to transfer a piece of state-owned industrial construction leasehold land located in Kunshan, Jiangsu Province, the PRC (the "Leasehold Land") with a term of 30 years at the consideration of approximately RMB6,935,000 (the "Consideration"). The Consideration and other costs necessarily incurred to bring the Leasehold Land to the condition and location necessary for its intended use of approximately RMB211,000 were recognized as its historical cost when the Leasehold Land was ready for its intended use in February 2022. Lump sum payments were made upfront and no ongoing payments will be made under the term of the Leasehold Land.

The Group has lease contracts for factories and venues, parking lots, a parcel of land in its operations and vehicles. Leases of factories and venues generally have lease terms between 3 and 10 years. Leases of parking lots generally have a lease term of 10 years. Vehicles generally have a lease term of 3 years.

Notes to the Interim Financial Information *(Continued)*

30 June 2022

11. INTANGIBLE ASSETS

	Software RMB'000
Cost	
At 1 January 2022	9,017
Additions	338
At 30 June 2022	9,355
Accumulated amortization	
At 1 January 2022	7,279
Amortization charges for the period	574
At 30 June 2022	7,853
Net carrying amount	
At 30 June 2022 (unaudited)	1,502

	Software RMB'000
Cost	
At 1 January 2021	8,169
Additions	389
At 30 June 2021	8,558
Accumulated amortization	
At 1 January 2021	6,154
Amortization charges for the period	591
At 30 June 2021	6,745
Net carrying amount	
At 30 June 2021 (unaudited)	1,813

Notes to the Interim Financial Information *(Continued)*

30 June 2022

12. INVENTORIES

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Finished goods	117,552	99,761
Work in progress	104,042	80,977
Raw materials and low value consumables	1,411	1,484
	223,005	182,222

13. TRADE AND NOTES RECEIVABLES

An ageing analysis of the trade and notes receivables as at the end of the reporting period, based on the date of the final acceptance report and net of loss allowance, is as follows:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 30 days	33,799	31,320
31–60 days	5,434	16,082
61–90 days	3,758	11,069
91–180 days	10,349	20,519
181–365 days	20,075	9,492
Over 365 days	5,741	7,262
	79,156	95,744

Notes to the Interim Financial Information *(Continued)*

30 June 2022

14. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Non-current		
Prepayment for acquisition of items of property, plant and equipment	8,164	3,149
Deposits	350	350
Prepayment for acquisition of Leasehold Land	–	6,935
	8,514	10,434
Current		
Receivable from disposal of a factory premise	348	4,865
Prepayments	1,436	2,430
Deposits and other receivables	1,479	1,787
HKEX annual subscription fee	65	124
Input value added tax (“VAT”) to be deducted	223	228
	3,551	9,434

Notes to the Interim Financial Information *(Continued)*

30 June 2022

15. CASH AND CASH EQUIVALENTS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Cash and bank balances	114,439	100,851
Less: Restricted bank deposits (Note)	(2,931)	(2,780)
Cash and cash equivalents	111,508	98,071

Note: As at 30 June 2022, the Group has placed restricted bank deposits in a bank with an aggregate amount of approximately RMB2.93 million, among which approximately RMB2.78 million is in relation to the performance guarantees issued by the bank to Zhangpu Town People's Government of Kunshan Municipality for the acquisition of the Leasehold land as disclosed in note 10 to the condensed Interim Financial Information and approximately RMB0.15 million is in relation to the performance guarantee issued by the bank to a customer of the Group for the sale of moulds.

As at 30 June 2022 and 31 December 2021, the Group's cash and bank balances denominated in RMB and held in Mainland China amounted to RMB67,070,000 and RMB49,057,000, respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks that are authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Notes to the Interim Financial Information *(Continued)*

30 June 2022

16. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 30 days	30,456	29,914
31–60 days	16,766	11,639
61–90 days	816	11,234
91–120 days	2,781	3,089
Over 120 days	3,134	3,946
	53,953	59,822

17. OTHER PAYABLES AND ACCRUALS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Staff cost and welfare accruals	6,785	9,495
Provision for warranty (Note)	1,902	2,414
Other tax payables	737	1,061
Professional service fee payables	702	1,019
Other payables	1,645	973
	11,771	14,962

Other payables are non-interest-bearing and are repayable on demand.

Notes to the Interim Financial Information *(Continued)*

30 June 2022

17. OTHER PAYABLES AND ACCRUALS *(Continued)*

Note:

Provision for warranty

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
At the beginning of period	2,414	3,400
Accrual/(reversal)	239	(597)
Payment	(751)	(588)
At the end of period	1,902	2,215

18. CONTRACT LIABILITIES

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Contract liabilities	117,602	92,542

Contract liabilities include short-term advances received to deliver moulds.

19. OTHER BORROWING

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Note receivable discounted with recourse due within one year	6,938	–

The Group entered into a discounting arrangement (the "Arrangement") with a third party in May 2022. Under the Arrangement, the Group was granted with a loan facility up to a 98.87% of a note receivable being presented to the third party and the Group retained substantial risks and rewards, including the default risk relating to the note receivable. Accordingly, the Group continued to recognise the discounted note receivable with the amount granted by the third party. The note receivable discounted under the Arrangement will be settled in April 2023.

Notes to the Interim Financial Information *(Continued)*

30 June 2022

20. LEASE LIABILITIES

	30 June 2022 (Unaudited) RMB'000
Carrying amount at 1 January 2022	14,026
Accretion of interest recognised during the period	302
Payments	(2,320)
Carrying amount at 30 June 2022 (unaudited)	12,008
Analysed into:	
Current portion	3,913
Non-current portion	8,095

	30 June 2021 (Unaudited) RMB'000
Carrying amount at 1 January 2021	16,674
Accretion of interest recognised during the period	353
Payments	(2,417)
Carrying amount at 30 June 2021 (unaudited)	14,610
Analysed into:	
Current portion	3,826
Non-current portion	10,784

Notes to the Interim Financial Information *(Continued)*

30 June 2022

21. GOVERNMENT GRANTS

	For the six months ended	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
At the beginning of period	6,255	2,754
Released to the statement of profit or loss	(1,073)	(261)
At the end of period	5,182	2,493
Current portion	(2,055)	(266)
Non-current portion	3,127	2,227

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

22. SHARE CAPITAL

	30 June	31 December
	2022	2021
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Issued and fully paid/credited as fully paid 660,000,000 ordinary shares of HK\$0.01 each	5,806	5,806

Notes to the Interim Financial Information *(Continued)*

30 June 2022

23. TREASURY SHARES

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Treasury shares (number of shares: 2,826,000)	724	724

Pursuant to a resolution passed by the Board of Directors of the Company on 18 May 2021, the Company entered into a trust deed with an independent trustee (the "Trustee"). The Trustee shall act as the administrator of the Company's Share Award Scheme.

A structured entity (the "Trust"), namely SALA T Limited, was set up on 13 May 2021, which it has the ability to use its power over the Trust to affect its exposure to returns. Therefore, the assets and liabilities of the Trust are included in the Group's consolidated statement of financial position and the ordinary shares held for the Company's Share Award Scheme were regarded as treasury shares and presented as a deduction in equity.

24. SHARE-BASED PAYMENTS

Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme") on 6 June 2019, the purpose of which is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

On 18 May 2021, under the Share Option Scheme, the Company granted options to its employees, including executive directors, to subscribe for up to a total of 9,248,000 ordinary shares with the nominal value of HK\$0.01 per share. The share options have a term of 5 years from the date of grant and their exercise price is HK\$0.405. The exercise of the share options is subject to grantee's continued service to the Group through the applicable vesting dates, the financial performance of the Group over certain periods and the grantees' achievement of their respective performance targets as determined by the Company (the "Performance Conditions"). The fair value of the share options determined using a Binomial option-pricing model was approximately HK\$0.221 per share option.

For the six months ended 30 June 2022, no share-based compensation expense has been recognised under the Share Option Scheme as the Performance Conditions are not expected to be satisfied (six months ended 30 June 2021: Nil).

Share award scheme

The Company has adopted a share award scheme on 18 May 2021 (the "Share Award Scheme"), pursuant to which the Company may grant awarded shares to the selected participants, including directors, senior management and/or employee(s). The Share Award Scheme shall be valid and effective for ten years from the adoption date unless early terminated by the Directors in accordance with the scheme rules.

Notes to the Interim Financial Information *(Continued)*

30 June 2022

24. SHARE-BASED PAYMENTS *(Continued)*

Share award scheme *(Continued)*

On 18 May 2021, under the Share Award Scheme, the Company granted an aggregate of 9,248,000 awarded shares to 24 selected participants. The relevant awardees shall contribute HK\$0.20 per awarded share. Subject to the awardee's continued service to the Group through the applicable vesting dates, the awarded shares shall become vested with respect to 30%, 30% and 40% of the awarded shares on 18 November 2021, 2022 and 2023 respectively.

For the six months ended 30 June 2022, the Group has recognised approximately RMB271,000 of share-based compensation expenses under the Share Award Scheme in the condensed consolidated statement of profit or loss (six months ended 30 June 2021: RMB176,000).

25. RELATED PARTY TRANSACTIONS

(a) The Group's related parties and relationships with them:

Name	Relationship
Shine Art International Limited	Controlling Shareholder
Friendly Holdings (HK) Co., Limited	Shareholder
Lin Wan-Yi	Ultimate controlling shareholder, Chairman, Executive Director and chief executive officer

(b) There was no transaction with related parties during the period.

(c) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Fees	84	84
Equity-settled share reward expense	86	54
Salaries, allowances, and benefits in kind	1,048	977
Performance related bonuses	204	219
Pension scheme contributions	24	–
Total compensation paid to key management personnel	1,446	1,334

The key management personnel of the Group for the six months ended 30 June 2022 included three (six months ended 30 June 2021: three) directors of the Company whose total compensation was approximately RMB1,133,000 (six months ended 30 June 2021: RMB947,000).

Notes to the Interim Financial Information *(Continued)*

30 June 2022

26. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Contracted, but not provided for:		
Machinery	15,241	12,221
Plant construction	1,964	1,684
	17,205	13,905

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amount and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair value, are as follows:

	Carrying Amounts		Fair Values	
	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
FINANCIAL ASSETS				
Notes receivable	23,409	23,395	23,367	23,195

Management has assessed that the fair values of cash and cash equivalents, restricted bank deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables, financial liabilities included in other payables and accruals and contract liabilities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance management center is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of each of the reporting period, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Notes to the Interim Financial Information *(Continued)*

30 June 2022

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

The fair values of notes receivable have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows of the notes receivable. The Directors believe that the estimated fair values resulting from valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in the condensed consolidated statement of profit or loss and other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2022

	Fair value measurement using			Total (Unaudited) RMB'000
	Quoted Price in active markets (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	
Notes receivable	–	23,367	–	23,367

As at 31 December 2021

	Fair value measurement using			Total (Unaudited) RMB'000
	Quoted Price in active markets (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	
Notes receivable	–	23,195	–	23,195

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2021: Nil).

Notes to the Interim Financial Information *(Continued)*

30 June 2022

28. EVENTS AFTER THE REPORTING PERIOD

On 11 July 2022, the Group entered into a construction contract with a contractor for the construction of the Group's factory premises at the consideration of approximately RMB77.0 million.

On 22 July 2022, the Group entered into a purchase agreement with a vendor for the purchase of equipment at the consideration of approximately RMB19.3 million.

As at the date of approval of the unaudited Interim Financial Information, apart from the aforementioned events, the Group did not have any other significant event subsequent to 30 June 2022.

29. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The unaudited Interim Financial Information was approved and authorized for issue by the Board on 25 August 2022.