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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Shinelong Automotive Lightweight Application Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) hereby announces the unaudited consolidated interim results of the Group for the six months ended 30 June 2020 (the “**1H2020**”). The interim results of the Group have been reviewed by the Company’s auditor 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. The interim results of the Group have also been reviewed by the Company’s audit committee.

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

	For the six months ended 30 June		
	2020	2019	Change
Revenue (<i>RMB'000</i>)	112,205	113,988	-1.6%
Gross profit (<i>RMB'000</i>)	43,365	32,695	32.6%
Gross profit margin	38.6%	28.7%	9.9 percentage points
Net profit (<i>RMB'000</i>)	17,875	1,539	1,061.5%
Net profit margin	15.9%	1.4%	14.5 percentage points
Adjusted net profit (<i>RMB'000</i>) ^{Note}	17,875	16,139	10.8%
Adjusted net profit margin ^{Note}	15.9%	14.2%	1.7 percentage points
Basic earnings per share (<i>RMB cents</i>)	2.71	0.31	774.2%

Note: Adjusted net profit is not a financial measure under IFRS. Adjusted net profit and adjusted net profit margin are calculated based on the net profit for the period before listing expenses for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") (the "Listing").

SUMMARY OF THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2020	As at 31 December 2019	Change
Total assets (<i>RMB'000</i>)	464,853	414,467	12.2%
Cash and cash equivalents (<i>RMB'000</i>)	94,656	86,904	8.9%
Total liabilities (<i>RMB'000</i>)	186,251	151,787	22.7%
Total equity (<i>RMB'000</i>)	278,602	262,680	6.1%
Return on equity	12.8%	9.0%	3.8 percentage points
Return on total assets	7.7%	5.7%	2.0 percentage points
Adjusted return on equity ^{Note}	12.8%	14.6%	-1.8 percentage points
Adjusted return on total assets ^{Note}	7.7%	9.2%	-1.5 percentage points

Note: Adjusted return on equity and adjusted return on total assets are calculated based on the net profit for the year/period before listing expenses for the Listing.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 June 2020

	<i>Notes</i>	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
REVENUE	4	112,205	113,988
Cost of sales		(68,840)	(81,293)
Gross profit		43,365	32,695
Other income and gains, net		442	455
Selling and distribution expenses		(1,896)	(2,700)
General and administrative expenses		(19,537)	(24,517)
Finance costs		(414)	(540)
PROFIT BEFORE TAX	5	21,960	5,393
Income tax expense	6	(4,085)	(3,854)
PROFIT FOR THE PERIOD		<u>17,875</u>	<u>1,539</u>
Attributable to:			
Owners of the Company		<u>17,875</u>	<u>1,539</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Changes in fair value of debt investments at fair value through other comprehensive income		83	(30)
Exchange differences on translation of foreign operations		1,673	(49)
NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD		<u>1,756</u>	<u>(79)</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		<u>1,756</u>	<u>(79)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>19,631</u>	<u>1,460</u>
Attributable to:			
Owners of the Company		<u>19,631</u>	<u>1,460</u>
BASIC AND DILUTED EARNINGS PER SHARE (in RMB cent per share)	8	<u>2.71</u>	<u>0.31</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

		30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	9	64,959	62,912
Right-of-use assets		14,149	15,670
Intangible assets		2,751	3,162
Prepayments		4,749	–
Deferred tax assets		3,401	1,785
Net investments in subleases		193	362
		<hr/>	<hr/>
Total non-current assets		90,202	83,891
CURRENT ASSETS			
Inventories		175,026	138,419
Trade and notes receivables	10	82,760	103,395
Prepayments, other receivables and other assets		1,286	1,478
Net investments in subleases		371	380
Financial assets at fair value through profit or loss		20,552	–
Cash and cash equivalents		94,656	86,904
		<hr/>	<hr/>
Total current assets		374,651	330,576
CURRENT LIABILITIES			
Trade and notes payables	11	64,409	50,174
Other payables and accruals		14,298	14,440
Government grants		463	454
Contract liabilities		83,247	65,942
Dividends payable	7	3,709	–
Lease liabilities		3,176	3,333
Income tax payable		4,592	3,136
		<hr/>	<hr/>
Total current liabilities		173,894	137,479
NET CURRENT ASSETS		<hr/> 200,757 <hr/>	<hr/> 193,097 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 290,959 <hr/>	<hr/> 276,988 <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

30 June 2020

		30 June 2020	31 December 2019
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Government grants		1,691	1,937
Deferred tax liabilities		216	412
Lease liabilities		10,450	11,959
		<hr/>	<hr/>
Total non-current liabilities		12,357	14,308
		<hr/>	<hr/>
Net assets		278,602	262,680
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to the owners of the Company			
Share capital	12	5,806	5,806
Reserves		272,796	256,874
		<hr/>	<hr/>
Total equity		278,602	262,680
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

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 Group is 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, 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 Hong Kong Stock Exchange since 28 June 2019.

The Interim Financial Information comprises the condensed consolidated statement of financial position as at 30 June 2020, the related condensed consolidated statement of profit or loss and comprehensive income for the six-month periods then ended, 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.

2. BASIS OF PREPARATION

The Interim Financial Information for the six months ended 30 June 2020 has been prepared in accordance with IAS 34 Interim Financial Reporting. 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 2019.

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 2019, 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>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

Other than as explained below regarding the impact of Amendment to IFRS 16 *Covid-19-Related Rent Concessions* (early adopted), the new and revised standards are not relevant to the preparation of the Interim Financial Information. The nature and impact of the amendment to IFRS 16 are described below:

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's factories and venues have been reduced by a lessor as a result of the Covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by a lessor as a result of the Covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of approximately RMB67,000 has been accounted for as a variable lease payment by derecognizing part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

While the adoption of some of the new and revised IFRSs may result in changes in accounting policies, none of these IFRSs is expected to have a significant impact on the Group's results of operations and financial position.

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales of moulds		
Health protective appliances moulds	38,664	–
Automotive moulds	36,417	79,264
Electrical appliance moulds	26,345	27,752
Other moulds	3,572	51
Parts processing services	6,664	5,200
Others	543	1,721
	112,205	113,988
Represented by:		
Goods and services transferred at a point in time	112,205	113,988
Represented by:		
Geographic markets		
The PRC	107,216	112,809
Overseas	4,989	1,179
	112,205	113,988

5. PROFIT BEFORE TAX

	For the six months ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Raw material consumed	32,773	45,640
Direct labor cost	7,760	9,854
Subcontracting expenses	17,842	12,422
Depreciation of property, plant and equipment	4,465	4,386
Depreciation of right-of-use assets	1,521	1,292
Amortization of intangible assets	721	640
Research and development costs	3,800	3,016
Interest on lease liabilities	414	372
Listing expenses	–	14,600
Auditor's remuneration	629	1,081
Employee benefit expenses (including directors' remuneration)		
Salaries and bonuses	7,630	7,034
Pension scheme contributions	1,205	2,192
	<u>8,835</u>	<u>9,226</u>
Impairment losses for trade and notes receivables, net	7,836	182
Reversal of warranty	(128)	(165)
Write-down of inventories to net realizable value	4,441	8,132
Foreign exchange differences, net	1,474	(95)
	<u>14,828</u>	<u>17,807</u>

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 2020 and 2019, Shinelong Intellectual Manufacture Precision Applied Materials (Suzhou) Company Limited was qualified as a high and new technology enterprise and enjoyed a preferential income tax rate of 15%. Qingdao Xunzhan Molding Technology Company Limited was certified as a small and micro-sized enterprise (“SME”) and enjoyed a 75% reduction in taxable income and the preferential income tax rate of 20% for the period ended 30 June 2020 and 2019 as its estimated annual taxable income is below RMB1 million.

	For the six months ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current — PRC	5,485	4,000
Deferred — PRC	(1,400)	(146)
	<u>4,085</u>	<u>3,854</u>

7. DIVIDENDS

	For the six months ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
At beginning of the period	–	367
Final declared		
— RMB0.562 cents (2019: nil) per ordinary share	3,709	–
Settlement	–	(367)
	<u>3,709</u>	<u>–</u>
At end of the period	<u>3,709</u>	<u>–</u>

On 26 March 2020, the Directors proposed a final dividend of RMB0.562 cents per ordinary share totalling approximately RMB3,709,000 for the year ended 31 December 2019, which is approved by the Company's shareholders at the annual general meeting on 29 May 2020.

The Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

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 2020 attributable to ordinary equity holders of the Company of approximately RMB17,875,000 (six months ended 30 June 2019: RMB1,539,000) and the weighted average number of ordinary shares of 660,000,000 (six months ended 30 June 2019: 496,833,333) in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2020 and 2019 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2020 and 2019.

9. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 January 2020	6,259	102,925	4,212	2,908	1,618	–	117,922
Additions	–	2,697	211	–	–	3,611	6,519
Disposals	–	(3)	(30)	–	–	–	(33)
	<u>6,259</u>	<u>105,619</u>	<u>4,393</u>	<u>2,908</u>	<u>1,618</u>	<u>3,611</u>	<u>124,408</u>
At 30 June 2020	<u>6,259</u>	<u>105,619</u>	<u>4,393</u>	<u>2,908</u>	<u>1,618</u>	<u>3,611</u>	<u>124,408</u>
Accumulated depreciation							
At 1 January 2020	3,894	44,657	2,437	2,807	1,215	–	55,010
Depreciation charges for the period	141	3,999	249	18	58	–	4,465
Disposals	–	(1)	(25)	–	–	–	(26)
	<u>4,035</u>	<u>48,655</u>	<u>2,661</u>	<u>2,825</u>	<u>1,273</u>	<u>–</u>	<u>59,449</u>
At 30 June 2020	<u>4,035</u>	<u>48,655</u>	<u>2,661</u>	<u>2,825</u>	<u>1,273</u>	<u>–</u>	<u>59,449</u>
Net carrying amount							
At 30 June 2020 (unaudited)	<u>2,224</u>	<u>56,964</u>	<u>1,732</u>	<u>83</u>	<u>345</u>	<u>3,611</u>	<u>64,959</u>

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings <i>RMB'000</i>	Machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost						
At 1 January 2019	6,259	98,783	3,924	2,908	1,640	113,514
Additions	–	4,175	273	–	144	4,592
Disposals	–	(69)	(80)	–	(129)	(278)
At 30 June 2019	<u>6,259</u>	<u>102,889</u>	<u>4,117</u>	<u>2,908</u>	<u>1,655</u>	<u>117,828</u>
Accumulated depreciation						
At 1 January 2019	3,612	36,890	2,101	2,584	1,217	46,404
Depreciation charges for the period	141	3,819	250	114	62	4,386
Disposals	–	(49)	(72)	–	(113)	(234)
At 30 June 2019	<u>3,753</u>	<u>40,660</u>	<u>2,279</u>	<u>2,698</u>	<u>1,166</u>	<u>50,556</u>
Net carrying amount						
At 30 June 2019 (unaudited)	<u>2,506</u>	<u>62,229</u>	<u>1,838</u>	<u>210</u>	<u>489</u>	<u>67,272</u>

10. 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 2020 (Unaudited) <i>RMB'000</i>	31 December 2019 (Audited) <i>RMB'000</i>
Within 30 days	18,193	33,240
31–60 days	13,062	6,669
61–90 days	7,033	13,126
91–180 days	21,671	27,329
181–365 days	16,454	18,333
Over 365 days	6,347	4,698
	<u>82,760</u>	<u>103,395</u>

11. TRADE AND NOTES PAYABLES

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

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 30 days	28,469	23,724
31–60 days	14,940	9,242
61–90 days	14,324	8,990
91–120 days	6,398	1,094
Over 120 days	278	7,124
	64,409	50,174

12. SHARE CAPITAL

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Issued and fully paid/credited as fully paid 660,000,000 ordinary shares of HK\$0.01 each	5,806	5,806

BUSINESS REVIEW

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.

The revenue of the Group for 1H2020 amounted to RMB112.2 million, representing a slight decrease of RMB1.8 million or 1.6% as compared with that of RMB114.0 million for the six months ended 30 June 2019 (the "1H2019"). Such decrease was mainly due to the net effect of the decrease in revenue generated from the sales of automotive moulds and the increase in revenue generated from sales of health protective appliances moulds. The Group's net profit for 1H2020 amounted to RMB17.9 million, representing an increase of RMB1.8 million or 10.8% as compared with the net profit (before listing expenses) of RMB16.1 million for 1H2019. Such increase was mainly due to the increase in the gross profit from sales of health protective appliances moulds.

OUTLOOK

In 2019, the Chinese economy was affected by the uncertainties arising from the Sino-US trade frictions. In 2020, due to the global outbreak of the novel coronavirus disease 2019 ("COVID-19"), business and economic activities in China and other countries have been severely affected and international trade has shrunk significantly. According to the statistics of the China Association of Automobile Manufacturers, domestic automobile production and sales in China in the first half of 2020 decreased by 16.8% and 16.9% year-on-year, respectively. Although the rate of decline has been slowed down, due to the uncertainties arising from the outbreak of COVID-19, demand of automobiles has not yet recovered and the investment plans and new production lines of some automotive parts companies in China have also been delayed or suspended. The hot-pressing automotive mould market, which the Group is focused on, is therefore expected to continue to be affected by the overall slump in the PRC automobile manufacturing market.

The electrical appliance market also faces similar situation as the automobile manufacturing market in the PRC which the demand of electrical appliances has been greatly affected and the export activities of electrical appliances from the PRC to overseas have been reduced as a result of the lockdown measures adopted by the PRC and other countries to prevent the spread of COVID-19.

While the automobile manufacturing market and electrical appliance market face fierce competition and challenges from the pandemic, the Chinese government has introduced a series of measures to stimulate consumption of automobiles and electrical appliances, including promotion of the retirement and replacement of old automotive in an effective and orderly manner, relaxation of the restriction on purchase of automotive of some of the cities, promotion of purchase of new energy vehicles in the countryside, reduction of taxes, and relaxation of the restriction on foreign investment. The Group expects the Chinese government will continue to introduce measures to stimulate investment and the economy and boost consumer confidence.

In view of the outbreak of COVID-19, the Group had developed health protective appliances moulds during the first half of 2020 which were mainly used for the production of masks. The revenue from the sales of health protective appliances moulds of the Group for 1H2020 mostly offset the decrease in the revenue from the sales of automotive moulds. The Group expects the demand of health protective appliances will be slowed down in the second half of 2020 with the gradual control of the domestic epidemic situation.

In the second half of 2020, the Group will formulate business strategies based on the current situation of the global automotive, electrical appliance market and health protective appliances moulds and strengthen the credit risk assessments of its customers to face the challenges ahead. The Group will actively explore other potential markets and continue to improve production efficiency and control operating costs to maintain its competitive advantages. The Group will also continue to implement the strategies and expansion plans as set out in its prospectus dated 17 June 2019 (the “Prospectus”).

FINANCIAL REVIEW

Revenue

The revenue of the Group amounted to RMB112.2 million for 1H2020, representing a decrease of RMB1.8 million or 1.6% as compared with that of RMB114.0 million for 1H2019.

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

	For the six months ended 30 June		
	2020 RMB'000	2019 RMB'000	Change %
Sales of moulds			
Automotive moulds	36,417	79,264	-54.1
Electrical appliance moulds	26,345	27,752	-5.1
Health protective appliances moulds	38,664	–	–
Other moulds	3,572	51	6,903.9
Sub-total	104,998	107,067	-1.9
Parts processing services	6,664	5,200	28.2
Other sundry income	543	1,721	-68.4
Total	112,205	113,988	-1.6

(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 and health protective appliances. Sales of moulds accounted for approximately 94% of the Group’s revenue for 1H2020.

The revenue generated from sales of automotive moulds for 1H2020 amounted to RMB36.4 million, representing a decrease of RMB42.9 million or 54.1% as compared with that of RMB79.3 million for 1H2019. Such decrease was primary due to the decrease in revenue generated from one of the Group's major customers, whose orders had decreased in the second half of 2019. The Directors believe that this customer decreased its business with the Group as a result of the decrease in sales of automobiles and introduction of new passenger vehicle models due to the weakened global economy.

The revenue generated from sales of electrical appliance moulds for 1H2020 amounted to RMB26.3 million, which remained relatively stable as compared with that of RMB27.8 million for 1H2019.

Due to the outbreak of COVID-19, the Group had developed health protective appliances moulds during the first half of 2020 which were mainly used for the production of masks. The revenue generated from sales of health protective appliances moulds for 1H2020 amounted to RMB38.7 million.

(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, electrical appliance moulds and health protective appliances moulds. The revenue generated from parts processing services for 1H2020 amounted to RMB6.7 million, representing an increase of RMB1.5 million or 28.2% as compared with that of RMB5.2 million for 1H2019. Such increase was primary due to increase in demand of parts processing services for health protective appliances moulds from the Group's new customers.

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 1H2020 amounted to RMB68.8 million, representing a decrease of RMB12.5 million or 15.3% as compared with that of RMB81.3 million for 1H2019. Such decrease was mainly due to the decrease in the demand of automotive moulds and the cost of production of health protective appliances moulds was relatively lower when comparing to the production of automotive moulds and electrical appliance moulds.

Gross profit and gross profit margin

The gross profit of the Group for 1H2020 amounted to RMB43.4 million, representing an increase of RMB10.7 million or 32.6% as compared with that of RMB32.7 million for 1H2019. The gross profit margin increased from 28.7% for 1H2019 to 38.6% for 1H2020 which was mainly attributable to (a) the increase in the gross profit margin from sales of automotive moulds mainly due to the fact that the Group had received a larger proportion of acceptance reports from one of the Group's major customers which had a relatively higher gross profit margin when comparing to other customers; and (b) the higher gross profit margin from health protective appliances moulds as the Group was able to charge a higher mark-up in this business segment mainly due to (i) the high demand of masks as a result of the outbreak of COVID-19; (ii) the request of urgent delivery of moulds from the new customers; and (iii) the relatively short production cycle.

Other income and gains

The other income and gains of the Group mainly consisted of government grants and interest income. The amount remained relatively stable at RMB0.5 million for 1H2019 and RMB0.4 million for 1H2020.

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 decreased from RMB2.7 million for 1H2019 to RMB1.9 million for 1H2020, representing a decrease of RMB0.8 million or 29.8%. Such decrease was mainly due to the decrease in moulds maintenance costs, logistics expenses, and travelling and entertainment.

General and administrative expenses

The general and administrative expenses of the Group for 1H2020 amounted to RMB19.5 million, representing a decrease of RMB5.0 million or 20.3% as compared with that of RMB24.5 million for 1H2019. The listing expenses in relation to the Listing recognised for 1H2019 was RMB14.6 million. Excluding the listing expenses, the general and administrative expenses of RMB19.5 million for 1H2020 would have increased by RMB9.6 million or 97.0% as compared with that of RMB9.9 million for 1H2019. Such increase was mainly due to (i) the increase in compliance costs after listing; and (ii) the increase in impairment losses for trade receivables of RMB7.7 million. The increase in impairment loss was mainly attributable to provision relating to one of the Group's customers which was not able to settle its trade receivables with the Group as agreed. As at the date of this announcement, the Group was under legal proceedings with this customer and the Group considered that such trade receivables may or may not be fully collected. However, a full impairment losses for trade receivables was provided for this customer for prudent purpose. The Directors further believe that the COVID-19 pandemic may have negative impact on some of its customers' businesses and/or liquidity. As such, the Group has reviewed and analyzed its trade receivables profiles and increased the provision for the expected credit losses as considered appropriate.

Finance costs

The finance costs of the Group mainly consisted of interest expenses on bank loans, discounted notes receivable and lease liabilities. The amount remained relatively stable at RMB0.5 million for 1H2019 and RMB0.4 million for 1H2020.

Income tax expenses and effective tax rate

The income tax expenses of the Group increased from RMB3.9 million for 1H2019 to RMB4.1 million for 1H2020. The effective tax rate, representing income tax expense divided by profit before taxation, were 71.5% and 18.6% for 1H2019 and 1H2020, respectively. Excluding the listing expenses, the effective tax rate would have remained relatively stable at 19.3% for 1H2019 and 18.6% for 1H2020.

Net profit and net profit margin

The Group recorded net profit of RMB1.5 million and RMB17.9 million for 1H2019 and 1H2020, with a net profit margin of 1.4% and 15.9%, respectively. Excluding the listing expenses, the net profit margin of the Group would have increased from 14.2% for 1H2019 to 15.9% for 1H2020, which was mainly due to the increase in the gross profit margin of the Group.

Liquidity and Financial Resources

For 1H2020, the Group's operations were primarily financed through its operating activities and proceeds from the Listing. 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.

As at 30 June 2020, the Group's total current assets and current liabilities were RMB374.7 million (31 December 2019: RMB330.6 million) and RMB173.9 million (31 December 2019: RMB137.5 million), respectively, while the current ratio was 2.2 times (31 December 2019: 2.4 times). The increase in total current assets as at 30 June 2020 was mainly attributable to the increase in inventories, financial assets at fair value through profit or loss and cash and bank balances. As at 30 June 2020, the Group had cash and bank balances amounting to RMB94.7 million (31 December 2019: RMB86.9 million).

As at 30 June 2020, the Group had total banking facilities of RMB230 million. The Group's gearing ratio was 4.9% as at 30 June 2020 (31 December 2019: 5.8%).

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 2020, the Group's total equity was RMB278.6 million (31 December 2019: RMB262.7 million), which represented share capital of RMB5.8 million (31 December 2019: share capital of RMB5.8 million) and reserves of RMB272.8 million (31 December 2019: RMB256.9 million). The increase in total equity was primarily due to the net profit for the current period.

Capital Expenditure and Commitments

The Group's capital expenditure in 1H2020 primarily comprised expenditure on construction in progress and machinery and amounted to a total of RMB6.5 million (31 December 2019: RMB4.8 million).

As at 30 June 2020, the Group had capital commitments of RMB19.3 million (31 December 2019: no capital commitments) 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 2020, the Group's property, plant and equipment amounted to RMB65.0 million (31 December 2019: RMB62.9 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 2020, the Group's inventories amounted to RMB175.0 million (31 December 2019: RMB138.4 million). Such increase was mainly due to (i) the increase in work-in-progress mainly attributable to the increase in orders received in the second quarter of 2020; and (ii) some of the Group's customers had delayed the issuance of final acceptance reports for the Group's moulds as a result of the outbreak of COVID-19.

Trade and notes receivables

The Group's trade and notes receivables represented amounts receivable from the 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 2020, the Group's trade and notes receivables amounted to RMB82.8 million (31 December 2019: RMB103.4 million). Such decrease was mainly due to (i) the increase in revenue from sales of health protective appliances moulds which customers in this business segment usually settle their trade receivables in a shorter period of time; and (ii) impairment losses for trade receivables of one of the Group's customers as mentioned in "General and administrative expenses" section above.

Due to the outbreak of COVID-19, the Group had strengthened the internal control measures on its assessment of expected credit losses on trade receivables, which include the following:

- (i) reviewed the trade receivables aging regularly and assessed the customers individually for provision for expected credit loss allowance which take into account the historical settlement pattern, correspondence with the customers, and evidence from external sources including the relevant public search results relating to the financial circumstances of the relevant customers; and
- (ii) increased the expected credit losses rates which were determined based on the Group's historical credit loss experience and rates used by the Group's comparable companies, with an adjustment to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables.

Based on the Group's assessment, the impairment losses for trade and notes receivables increased from RMB0.2 million for 1H2019 to RMB7.8 million for 1H2020. As at the date of this announcement, other than the legal proceedings with one of the Group's customers as mentioned in "General and administrative expenses" section above, the Group was not aware of any significant financial difficulties in its major debtors or significant doubt on collectability of its material trade receivables.

Trade and notes payables

The Group's trade and notes 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 2020, the Group's trade and notes payables amounted to RMB64.4 million (31 December 2019: RMB50.2 million). Such increase was mainly due to the increase in purchase volume of raw materials for the increase in orders received in the second quarter of 2020.

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 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 2020, the Group's contract liabilities amounted to RMB83.2 million (31 December 2019: RMB65.9 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.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2020, the Group had 355 employees (31 December 2019: 358 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 total staff cost including remuneration, other benefits and contributions to retirement schemes for the Directors and other staff of the Group for 1H2020 amounted to RMB16.6 million (1H2019: RMB19.1 million). The decrease in staff cost was mainly due to the decrease in direct labor cost and pension scheme contributions.

MATERIAL ACQUISITIONS AND DISPOSALS

During 1H2020, the Group had no material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no material contingent liabilities (as at 31 December 2019: nil).

PLEDGES OVER GROUP'S ASSETS

As at 30 June 2020, none of the assets of the Group were pledged.

SIGNIFICANT INVESTMENTS HELD

The Group did not have any significant investments held as at 30 June 2020.

FOREIGN CURRENCY EXPOSURE

Since the Group generated most of the revenue and incurred most of the costs in Renminbi for 1H2020, 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.

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 2020:

	Percentage of Net Proceeds	Net Proceeds from the global offering <i>HK\$' million</i>	Utilised up to 30 June 2020 <i>HK\$' million</i>	Unutilised as at 30 June 2020 <i>HK\$' million</i>	Expected timeline for full utilisation
Lease the premises for new factory	4.0%	3.8	0.9	2.9	By the end of 2021
General set up costs of the factory	3.2%	3.1	–	3.1	By the end of 2021
Purchase new production equipment	76.3%	72.9	13.7	59.2	By the end of 2021
Purchase softwares	6.5%	6.2	1.4	4.8	By the end of 2021
Supplement working capital	10.0%	9.6	6.7	2.9	By the end of 2021
		95.6	22.7	72.9	

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 objective 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 or delay in the use of proceeds.

The expected timeline of application of the unutilised Net Proceeds is based on the Prospectus and 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 2020, the unutilised Net Proceeds of approximately HK\$72.9 million have been placed as interest bearing deposits with licensed banks in the PRC and Hong Kong.

CORPORATE GOVERNANCE PRACTICES

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 Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") as the basis of the Company's corporate governance practices.

The Board is of the view that, during 1H2020 and up to the date of this announcement, the Company has complied with all the code provisions as set out in the CG Code, except for code provision A.2.1 as set out below:

Pursuant to code provision A.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. 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.

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during 1H2020 and up to the date of this announcement.

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 C.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 the six months ended 30 June 2020 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 the six months ended 30 June 2020 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules and specific enquiry has been made of all the Directors and they have confirmed that they have complied with the Model Code during 1H2020 and up to the date of this announcement.

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 1H2020 and up to the date of this announcement.

INTERIM DIVIDEND

The Board of Directors of the Company does not recommend the payment of an interim dividend for 1H2020 (for 1H2019: nil).

By Order of the Board
Shinelong Automotive Lightweight Application Limited
Lin Wan-Yi
Chairman and Executive Director

Hong Kong, 26 August 2020

As at the date of this announcement, the executive directors of the Company are Mr. Lin Wan-Yi, Mr. Yung Chia-Pu, Mr. Cheng Ching-Long and Mr. Lu Jen-Chieh; the non-executive director of the Company is Ms. Hsieh Pei-Chen; and the independent non-executive directors of the Company are Mr. So George Siu Ming, Mr. Lin Lien-Hsing and Mr. Fan Chi Chiu.