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China Candy Holdings Limited

中國糖果控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 08182)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the “Directors”) of China Candy Holdings Limited (the “Company” and together with its subsidiaries, the “Group”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

FINANCIAL SUMMARY

	Six months ended 30 June		Change
	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)	
Revenue	25,004	29,790	(16.1%)
Gross profit	3,719	6,371	(41.6%)
(Loss)/profit before tax	(11,857)	259	N/A
Loss for the period	(12,154)	(298)	(3,978.5%)
Loss per share			
– Basic and diluted (RMB cents)	(0.81)	(0.02)	(3,950.0%)
Proposed dividend per share	–	–	–

The board of Directors (the “Board”) announces the unaudited condensed consolidated results of the Group for the three months and six months ended 30 June 2017, together with the unaudited comparative figures for the corresponding periods in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2017

	Notes	Three months ended 30 June		Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	2	13,533	18,694	25,004	29,790
Cost of sales		(11,723)	(14,749)	(21,285)	(23,419)
Gross profit		1,810	3,945	3,719	6,371
Other income and loss	3	(2,242)	163	(5,385)	544
Distribution and selling expenses		(424)	(690)	(764)	(1,148)
Administrative expenses		(4,813)	(1,764)	(7,399)	(3,742)
Finance costs	4	(1,064)	(850)	(2,028)	(1,766)
(Loss)/profit before tax		(6,733)	804	(11,857)	259
Income tax expense	5	(55)	(292)	(297)	(557)
(Loss)/profit for the period	6	(6,788)	512	(12,154)	(298)
Other comprehensive expense, net of income tax					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		(736)	(71)	(627)	(89)
Other comprehensive expense for the period, net of income tax		(736)	(71)	(627)	(89)
Total comprehensive (expense)/income for the period attributable to owners of the Company		(7,524)	441	(12,781)	(387)
		<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>
(Loss)/earnings per share					
– Basic and diluted	8	(0.42)	0.04	(0.81)	(0.02)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	<i>Notes</i>	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment	9	69,183	69,775
Prepaid lease payments	10	8,475	8,577
		<u>77,658</u>	<u>78,352</u>
Current assets			
Inventories		5,778	3,978
Prepaid lease payments	10	204	204
Trade and other receivables	11	29,880	32,599
Amounts due from related parties		8,042	49
Cash and bank balances		92,342	44,889
		<u>136,246</u>	<u>81,719</u>
Total assets		<u>213,904</u>	<u>160,071</u>
Current liabilities			
Trade and other payables	12	9,924	14,657
Amounts due to related parties		8,875	2,257
Borrowings	13	85,676	55,000
Current tax liabilities		933	1,441
		<u>105,408</u>	<u>73,355</u>
Net current assets		<u>30,838</u>	<u>8,364</u>
Total assets less current liabilities		<u>108,496</u>	<u>86,716</u>
Non-current liabilities			
Deferred tax liabilities		3,203	3,095
Net assets		<u>105,293</u>	<u>83,621</u>
Capital and reserves			
Share capital		13,382	11,007
Reserves		91,911	72,614
Total equity		<u>105,293</u>	<u>83,621</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Statutory reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2016	11,007	29,282	35,329	3,215	237	7,422	86,492
Loss for the period	–	–	–	–	–	(298)	(298)
Other comprehensive expense for the period	–	–	–	–	(89)	–	(89)
Total comprehensive expense for the period	–	–	–	–	(89)	(298)	(387)
Balance at 30 June 2016 (Unaudited)	<u>11,007</u>	<u>29,282</u>	<u>35,329</u>	<u>3,215</u>	<u>148</u>	<u>7,124</u>	<u>86,105</u>
Balance at 1 January 2017	11,007	29,282	35,329	3,471	657	3,875	83,621
Loss for the period	–	–	–	–	–	(12,154)	(12,154)
Other comprehensive expense for the period	–	–	–	–	(627)	–	(627)
Total comprehensive expense for the period	–	–	–	–	(627)	(12,154)	(12,781)
Shares issued under placing	2,375	32,781	–	–	–	–	35,156
Shares issue expenses	–	(703)	–	–	–	–	(703)
Balance at 30 June 2017 (Unaudited)	<u>13,382</u>	<u>61,360</u>	<u>35,329</u>	<u>3,471</u>	<u>30</u>	<u>(8,279)</u>	<u>105,293</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash (used in)/generated by operating activities	(13,032)	770
Net cash used in investing activities	(1,286)	(973)
Net cash generated by financing activities	<u>63,101</u>	<u>814</u>
Net increase in cash and cash equivalents	48,783	611
Cash and cash equivalents at the beginning of period	44,889	43,267
Effects of exchange rate changes on the balance of cash held in foreign currencies	<u>(1,330)</u>	<u>(89)</u>
Cash and cash equivalents at the end of period	<u>92,342</u>	<u>43,789</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>92,342</u>	<u>43,789</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL INFORMATION, BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Company was incorporated in the Cayman Islands on 14 March 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company have been listed on the GEM of The Stock Exchange with effect from 11 November 2015. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business in Hong Kong is at Room 1603, 16/F, China Building, 29 Queen's Road Central, Central, Hong Kong.

The Company's principal activity was investment holding. The Group's principal activities was the manufacture and sales of candies products.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of Chapter 18 of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 are consistent with those adopted in the annual financial statements for the year ended 31 December 2016, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the "New and Revised HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA that are adopted for the first time for the current periods financial statements.

The adoption of the New and Revised HKFRSs has had no significant effect on these unaudited condensed consolidated financial statements for the six months ended 30 June 2017 and there have been no significant changes to the accounting policies applied in these unaudited condensed consolidated financial statements for the six months ended 30 June 2017.

The Group has not applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Group is currently assessing the impact of the adoption of such new and revised standards, amendments or interpretations to the Group but is yet to be in a position to state whether they would have any material financial impact on the Group's results of operations and financial position.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared on the historical cost basis. The unaudited condensed consolidated financial statements for the six months ended 30 June 2017 are presented in Renminbi ("RMB"), which is also the functional currency of the Group.

The condensed consolidated financial statements have not been audited by the Company's auditors, but have been reviewed by the audit committee of the Company.

2. REVENUE

Revenue represents the amounts received and receivable from the manufacture and sales of candies products during the respective periods.

3. OTHER INCOME AND LOSS

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income on bank deposits	–	–	1	13
Government grants and subsidies	159	145	859	145
Fair value change on investment in listed securities	(2,524)	–	(6,536)	–
Others	123	18	291	386
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(2,242)	163	(5,385)	544
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

4. FINANCE COSTS

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on secured bank term loans	243	850	603	1,766
Interest on unsecured loan	821	–	1,425	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	1,064	850	2,028	1,766
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

5. INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax				
– People's Republic of China (“PRC”)				
Enterprise Income Tax	9	179	189	454
Deferred tax				
– Current period	46	113	108	103
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total income tax recognized in profit or loss	55	292	297	557
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group had no assessable profits arising in or derived from Hong Kong for both periods.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. (LOSS)/PROFIT FOR THE PERIOD

(Loss)/profit for the period has been arrived at after charging/(crediting):

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Employee benefits expense (including directors' and chief executive's emoluments):				
Salaries, wages and other benefits	2,505	1,876	4,976	3,128
Contributions to retirement benefit scheme	104	174	244	410
	<u>2,609</u>	<u>2,050</u>	<u>5,220</u>	<u>3,538</u>
Total employee benefits expense				
Auditors' remuneration				
– audit services	–	–	–	–
Cost of inventories recognized as an expense	11,443	13,803	20,766	22,260
Amortization of prepaid lease payments (included in administrative expenses)	51	51	102	102
Depreciation of property, plant and equipment	944	819	1,879	1,606
Net foreign exchange gains	(504)	(314)	(439)	(362)

7. DIVIDENDS

No dividend has been paid or declared by the Company for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/earnings:				
(Loss)/profit for the period attributable to owners of the Company for the purpose of basic and diluted (loss)/earnings per share	<u>(6,788)</u>	<u>512</u>	<u>(12,154)</u>	<u>(298)</u>
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share (in thousand)	<u>1,608,000</u>	<u>1,340,000</u>	<u>1,496,950</u>	<u>1,340,000</u>

The diluted (loss)/earnings per share is equal to the (loss)/earnings per share as there is no dilutive potential ordinary share in issue during the periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired property, plant and equipment of approximately RMB1,287,000 (for the six months ended 30 June 2016: approximately RMB1,212,000). During the six months ended 30 June 2017, none of the property, plant and equipment was written off and disposed by the Group (for the six months ended 30 June 2016: nil).

10. PREPAID LEASE PAYMENTS

	As at	As at
	30 June	31 December
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Analysed for reporting purposes as:		
Current assets	204	204
Non-current assets	<u>8,475</u>	<u>8,577</u>
	<u>8,679</u>	<u>8,781</u>

The Group's prepaid lease payments comprise land use rights of leasehold land situated in the PRC under medium-term leases.

As at 30 June 2017, the Group's leasehold land with an aggregate carrying amount of approximately RMB8,679,000 (2016: RMB8,781,000) have been pledged to secure general banking facilities granted to the Group (note 13).

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
Trade receivables	22,974	25,297
Allowance for doubtful debts	(914)	(914)
	<hr/>	<hr/>
Trade receivables, net of allowance	22,060	24,383
Prepayments for purchase of raw materials	1,130	2,187
Value-added tax refundable	3,212	3,041
Other receivables and prepayments	3,478	2,988
	<hr/>	<hr/>
	29,880	32,599
	<hr/> <hr/>	<hr/> <hr/>

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates:

	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
0-30 days	4,022	10,092
31-60 days	1,957	7,100
61-90 days	2,664	4,432
91-120 days	3,982	2,634
121-365 days	9,435	125
	<hr/>	<hr/>
	22,060	24,383
	<hr/> <hr/>	<hr/> <hr/>

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. The average credit period was ranging from 30 to 60 days. No interest is charged on overdue receivables.

The management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

12. TRADE AND OTHER PAYABLES

	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
Trade payables	826	4,167
Receipts in advance	1,535	820
Other payables and accruals	7,563	9,670
	<u>9,924</u>	<u>14,657</u>

The following is an aged analysis of trade payables based on the invoice date:

	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
0-30 days	230	1,156
31-60 days	198	1,206
61-90 days	81	957
91-120 days	36	489
121-365 days	45	13
Over 365 days	236	346
	<u>826</u>	<u>4,167</u>

The trade payables are non-interest bearing and generally averaging to 60 days.

13. BORROWINGS

	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
Secured:		
Bank term loans (<i>note (i), (ii)</i>)	19,000	55,000
Unsecured:		
Loan (<i>note (iii)</i>)	66,676	—
Carrying amount repayable within one year	<u>85,676</u>	<u>55,000</u>

Notes:

- (i) The secured term loans were secured by a charge over the Group's buildings and leasehold land.
- (ii) The bank loans are repayable within one year, bear interest at rates ranging from 4.79% to 5.13% (2016: 4.57% to 5.13%) per annum as of 30 June 2017. The weighted average effective interest rate on the term loans is 4.90% (2016: 5.60%) per annum for the six months ended 30 June 2017.
- (iii) A company (the "Lender") wholly owned by Ms. Hong Yinzhi, the executive director, entered into a loan agreement with a subsidiary of the Company (the "Borrower"), pursuant to which the Lender is agreed to lend HK\$75,000,000 to the Borrower at an interest rate of 5% per annum for a term of 2 years with Lender's overriding right of withdrawal and immediate repayment on demand.

14. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the condensed consolidated financial statements, the Group entered into the following significant related party transactions during the period:

Compensation of key management personnel

The remuneration of directors and other members of key management during the period were as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Salaries and other benefits	641	503	1,264	1,004
Contribution to retirement benefit scheme	34	12	50	23
	<u>675</u>	<u>515</u>	<u>1,314</u>	<u>1,027</u>

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2017 (the “Period”) and up to the date of this announcement, the Group had been principally engaged in the manufacturing of various types of candies in China which include jelly drops candies, aerated candies and hard candies.

Business Review

During the six months ended 30 June 2017, the Group maintained its focus on manufacturing various candies products. Jelly drop candies continued to be the type of candy with the largest production volume amongst the different types of candies products produced by the Group.

The revenue of the Group for the six months ended 30 June 2017 was affected by the slow down in economic growth in the People’s Republic of China (the “PRC”) in the first half of 2017 and intensive competition from other candies manufacturers for the Period. Nevertheless, overseas customers continued to be the major source of the Group’s revenue for the six months ended 30 June 2017. The Group will continue to attend exhibition in overseas to promote its products and develop new customers.

The Group has kept its strength in maintaining a diversified and innovative products portfolio which the Directors consider it is crucial in enticing existing and new customers. The Group also continues to commit to stringent quality standards and quality control and excellent workplace condition. This enables the Group to achieve ongoing product improvement and enhance its product offerings.

To enhance the value for the shareholders of the Company (the “Shareholders”), the Company decided to expand its business into investment business, mainly investing in the shares of the listed companies in Hong Kong. To facilitate the above investment business, a company (the “Lender”) wholly owned by Ms. Hong Yinzhi, an executive Director, entered into a loan agreement with a subsidiary of the Company (the “Borrower”), pursuant to which the Lender agreed to lend HK\$75,000,000 to the Borrower at an interest rate of 5% per annum for a term of 2 years with Lender’s overriding right of withdrawal and immediate repayment on demand (the “Loan Agreement”). The above financial assistance constituted a connected transaction which is fully exempt under the GEM Listing Rules.

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased by approximately 16.1% from approximately RMB29,790,000 for the six months ended 30 June 2016 to approximately RMB25,004,000 for the six months ended 30 June 2017. The decrease in revenue for the six months ended 30 June 2017 was mainly attributed to the decrease in the sales to certain major customers of the Group resulting from economic slowdown in the PRC and intensive competition from other candies manufacturers for the Period.

Gross Profit

Gross profit of the Group decreased by approximately 41.6% from approximately RMB6,371,000 for the six months ended 30 June 2016 to approximately RMB3,719,000 for the six months ended 30 June 2017. The gross profit decreased as a result of the decrease in revenue.

On the other hand, gross profit margin decreased from approximately 21.4% for the six months ended 30 June 2016 to approximately 14.9% for the six months ended 30 June 2017. The decrease in gross profit margin was mainly due to (i) the decrease in price of the products of the Group which were mainly sold to Philippines as a result of the competition from other candies manufacturers in that region; (ii) the lowering of the gross profit margin for orders in Europe and the US market to promote new products and develop new customers; and (iii) the increase in the cost of raw materials due to the rising cost of white sugar and packaging materials in the PRC.

Other income and loss

Other loss of approximately RMB5,385,000 incurred for the six months ended 30 June 2017 when compared with the other income of approximately RMB544,000 in the corresponding period in 2016. Such loss for the Period was mainly due to realised loss on financial assets at fair value through profit or loss which was partly offset by the increase in government grant and subsidy.

Distribution and Selling Expenses

Distribution and selling expenses decreased by approximately 33.4% from approximately RMB1,148,000 for the six months ended 30 June 2016 to approximately RMB764,000 for the six months ended 30 June 2017. The decrease in the distribution and selling expenses for the six months ended 30 June 2017 was mainly due to the decrease in transportation and sundry expenses.

Administrative Expenses

Administrative expenses of the Group increased by approximately 97.7% from approximately RMB3,742,000 for the six months ended 30 June 2016 to approximately RMB7,399,000 for the six months ended 30 June 2017. The increase in administrative expenses for the six months ended 30 June 2017 was mainly due to increase in legal and professional expenses, directors' emoluments and salaries and allowances.

Finance Costs

Finance costs of the Group increased by approximately 14.8% from approximately RMB1,766,000 for the six months ended 30 June 2016 to approximately RMB2,028,000 for the six months ended 30 June 2017. The increase in finance costs for the six months ended 30 June 2017 is primarily due to the increase of amount of borrowing during the Period.

Loss for the Period

Loss for the Period of the Group increased by approximately 3,978.5% from approximately RMB298,000 for the six months ended 30 June 2016 to approximately RMB12,154,000 for the six months ended 30 June 2017. The increase in loss for the six months ended 30 June 2017 was mainly due to (i) the decrease of the revenue of the Group; (ii) the increase of the administrative expense of the Group; and (iii) realised losses of the investment of the listed securities for the six months ended 30 June 2017 as compared with the corresponding period in 2016.

Dividend

The Board does not recommend the payment of dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

OUTLOOK

With an optimistic prospect in the global confectionery industry, it is envisaged that there will be growth opportunities in the second half of 2017. According to the estimation from a study conducted by a market research firm, the global confectionery market is expected to grow at a compound annual growth rate (CAGR) of 3.80% in the forecasted period of 2016-2020. The confectionery market in the US is also projected to grow at a CAGR of 1.57% by revenue during the forecasted period of 2016-2020, while growth in the confectionery market in China is expected to continue. The trend of rising raw material costs faced by the Group during 2016 is also expected to slow down, as the supply deficit of sugar (one of the Group's key raw materials) experienced in 2016 is projected to reduce given the increased sugar production in Brazil, which is a major sugar producing region in the global market.

The Directors consider that the Group's turnover in the second half of 2017 could be negatively affected given the ongoing intensive competition from other candies manufacturers and economic slowdown in the PRC. Notwithstanding the challenges ahead, the Group will strive to strengthen its position in the confectionery industry by strengthening its team, refining its management, expanding its product offerings and its production capacity, as well as attending overseas exhibitions to promote its products and develop new markets and customers. The Group will continue to seek business opportunities in the confectionery industry in order to create greater value for the Shareholders.

To enhance the value for the Shareholders, the Company decided to expand its business into investment business, mainly investing in listed shares. To facilitate the above investment business, a company (the "Lender") wholly owned by Ms. Hong Yinzhi, an executive Director, entered into a loan agreement with a subsidiary of the Company (the "Borrower"), pursuant to which the Lender agreed to lend HK\$75,000,000 to the Borrower at an interest rate of 5% per annum for a term of 2 years with Lender's overriding right of withdrawal and immediate repayment on demand.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

There has been no change in the capital structure of the Group since the date of listing (the “Listing”) of the Shares on GEM on 11 November 2015. The capital of the Group only comprises of ordinary shares.

Historically, the Group has funded the liquidity and capital requirements primarily through operating cash flows and borrowings. The Group’s borrowings is primarily for financing. As at 30 June 2017, the Group had borrowings of approximately RMB85,676,000 (31 December 2016: approximately RMB55,000,000). The increase was mainly due to the need of general working capital of the Group.

As at 30 June 2017, approximately RMB19,000,000 (31 December 2016: approximately RMB55,000,000) of the bank borrowings of the Group were secured and approximately RMB66,676,000 (31 December 2016: nil) of the borrowings of the Group were unsecured. All bank loans were repayable within one year from the end of the reporting period based on the scheduled repayment dates set out in the loan agreements. The bank borrowings carried interests ranging from approximately 4.79% per annum to 5.13% per annum as at 30 June 2017 (31 December 2016: approximately 4.57% per annum to 5.13% per annum). The loan carried interests of 5% per annum. The weighted average effective interest rate on borrowings is approximately 4.90% per annum as at 30 June 2017 (31 December 2016: approximately 5.60% per annum). The loan of approximately RMB66,676,000 was at an interest rate of 5% per annum for a term of 2 years with Lender’s overriding right of withdrawal and immediate repayment on demand.

As at 30 June 2017, the Group had approximately RMB92,342,000 in cash and bank balances (31 December 2016: approximately RMB44,889,000). The Directors believe that the Group is in a healthy financial position to expand its core business and to achieve its business objectives.

PLACING OF NEW SHARES UNDER GENERAL MANDATE

On 22 February 2017 (after trading hours), the Company entered into a placing agreement with Head & Shoulders Securities Limited (the “Placing Agent”). Pursuant to the placing agreement, the Company conditionally agreed to allot and issue, and the Placing Agent has conditionally agreed to place, on a best effort basis, up to 268,000,000 new shares of the Company (the “Shares”) to not less than six individual, institutional or other professional investors (the “Placees”) at the placing price of HK\$0.148 per placing Share (the “Placing”). The Placees and their respective ultimate beneficial owner(s) (where appropriate) are independent third parties as defined in the GEM Listing Rules. The placing Shares were issued under the general mandate granted to the Directors on 4 May 2016. The Placing was completed on 17 March 2017. Upon completion of the Placing, the gross proceeds and the net proceeds (after deduction of the relevant expenses) from the Placing are approximately HK\$39.7 million and HK\$38.7 million, respectively. It is expected that (i) approximately HK\$20 million, representing approximately 51.7% of the net proceeds from the Placing, will be used for purchasing a premise for office use; and (ii) the remaining portion of approximately HK\$18.7 million, representing approximately 48.3% of the net proceeds from the Placing, will be used by the Company as general working capital of the Group. Further details of the Placing were disclosed in the announcements dated 22 February 2017 and 17 March 2017 issued by the Company.

VOLUNTARY CONDITIONAL CASH OFFER

On 30 March 2017, Jia Qing Developments Limited (“Jia Qing”) and Noble Core Limited (“Noble Core”) entered into a letter of intent with Ever Maple Flavors and Fragrances Holdings Limited (the “Offeror”), which set out certain preliminary terms in relation to the voluntary conditional cash offer to be made by the Offeror to acquire more than 50% of the voting rights in the Company (the “Offer”). On 10 May 2017, each of Jia Qing and Noble Core executed an irrevocable undertaking respectively in favour of the Offeror, pursuant to which, among other things, Jia Qing and Noble Core irrevocably undertook to accept the Offer in respect of all the Shares beneficially owned by Jia Qing and Noble Core. On 12 May 2017, the Company and the Offeror jointly announced that Somerley Capital Limited would make the Offer for and on behalf of the Offeror to acquire all the Shares in the entire issued share capital of the Company. The Offer was open for acceptance from 22 June 2017 and was lapsed on 13 July 2017. For further details of the Offer, please refer to the announcements dated 31 March 2017, 28 April 2017, 12 May 2017, 2 June 2017 and 13 July 2017 respectively, and the composite document dated 22 June 2017 jointly issued by the Company and the Offeror.

CAPITAL COMMITMENTS

The Group had no capital commitments not provided for in respect of property, plant and equipment as at 30 June 2017 (31 December 2016: nil).

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this announcement, the Group did not have other plans for material investments and capital assets.

GEARING RATIO

As at 30 June 2017, the Group’s gearing ratio was approximately 89.8% (31 December 2016: approximately 68.5%), based on total debt of approximately RMB94,551,000 and total equity of approximately RMB105,293,000. The increase is mainly attributable to the increase in total debt as at 30 June 2017.

Note: Gearing ratio is calculated as the total debt divided by total equity. Total debt includes borrowings and amount due to related parties.

CHARGE OVER ASSETS OF THE GROUP

As at 30 June 2017, the Group had prepaid lease payment and charge over the Group’s buildings of approximately RMB8,679,000 (31 December 2016: approximately RMB8,781,000) and RMB50,901,000 (31 December 2016: approximately RMB51,569,000) respectively. These prepaid lease payment and charged buildings were secured to bills payable or general banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no significant investments held as at 30 June 2017, nor other material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2017.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liabilities (2016: nil).

FOREIGN EXCHANGE EXPOSURE

The Group settles the cost of production in Renminbi (“RMB”) and most of the sales of the Group are settled in United States dollars (“US\$”) and others are denominated in HK\$. Therefore, the Group is exposed to foreign exchange risks of both US\$ and HK\$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had a total of approximately 150 employees. The Group’s staff cost for the six months ended 30 June 2017 amounted to approximately RMB5,220,000 (2016: approximately RMB3,538,000). The Group’s remuneration policies are in line with the prevailing market practice and are determined on the basis of performance, qualification and experience of individual employee. The Group recognises the importance of a good relationship with its employees. The remuneration payable to its employees includes salaries and allowance.

In the PRC, the Group’s employees have participated in various security insurance including social insurance prescribed by the Social Insurance Law of PRC (中華人民共和國社會保險法) and housing provident fund prescribed by the Regulations on Management of Housing Provident Fund (住房公積金管理條例).

SUBSEQUENT EVENT

On 12 May 2017, the Company and Ever Maple Flavors and Fragrances Holdings Limited (the “Offeror”) jointly announced that Somerley Capital Limited would made the voluntary conditional cash offer (the “Offer”) for and on behalf of the Offeror to acquire all the Shares in the entire issued share capital of the Company. The Offer was open for acceptance from 22 June 2017 and was lapsed on 13 July 2017. For further details of the Offer, please refer to the announcements dated 31 March 2017, 28 April 2017, 12 May 2017, 2 June 2017 and 13 July 2017, respectively, and the composite document dated 22 June 2017 jointly issued by the Company and the Offeror.

On 24 July 2017, Mr. Chu Wai Wa Fangus (“Mr. Chu”) has resigned as an independent non-executive director, the chairman of the remuneration committee and a member of the audit committee of the Company due to his other working commitments which require more of his dedication. Ms. Tsui Suk Man has been appointed as independent non-executive director, the chairman of the remuneration committee and a member of the audit committee of the Company with effect from 24 July 2017 in place of Mr. Chu.

On 31 July 2017, Mr. Xu Jinpei (“Mr. Xu”) has resigned as an executive Director, the chairman of the Board and the chairman of the nomination committee due to his other working commitments which require more of his dedication. Ms. Li Yuna, the existing executive Director, has been appointed as the chairperson of the Board and the chairperson of the nomination committee with effect from 31 July 2017 in place of Mr. Xu.

Save as disclosed above, there was no material subsequent event during the period from 1 July 2017 to the date of this announcement.

RETIREMENT BENEFITS PLANS

Pursuant to the applicable PRC laws and regulations, the Group participates to contribute to various security insurance including social insurance and housing provident fund.

The employees of the Group’s subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The PRC subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme in Hong Kong. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. Contributions are made based on a percentage of the employees’ basic salaries to the maximum mandatory contributions as required by the MPF Scheme.

The total expense recognized in profit or loss of approximately RMB244,000 (2016: RMB410,000) for the period ended 30 June 2017 represents contributions payable to the plan by the Group at rates specified in the rules of the plan.

No forfeited contributions are available to reduce the contribution payable by the Group in future years.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the prospectus of the Company dated 30 October 2015 ("Prospectus") with actual business progress up to 30 June 2017.

Business plan as set out in the Prospectus

Progress up to 30 June 2017

Expand and enhance the product offerings through continuous product development efforts

- Develop new products offerings and adjust the product mix in response to changing consumer tastes and preferences to achieve a more comprehensive product portfolio and improve the commercial appeal

The Group has developed new products continuously and strengthened the product portfolio. The Group has also developed a new series of sugar doll, innovative products combined with marshmallow and gummy candy, soft piping technique candies (軟裱花工藝糖), fudge cakes (蛋糕軟糖) and squeeze candies (擠壓糖). The Group collaborated with the customers to develop products with packaging styles and tastes that are prevalent in the market.

- Improve formulas for the products such as using healthy or other new ingredients in the candies product

Continue to strengthen the brand recognition and to develop new brands and series in order to enhance the market position and to strengthen intellectual property protection

- Improve corporate image with production of new corporate brochures, products and sales information and other advertisement materials, new designs of packaging and placing of advertisements in building the "Hollywood" brand to increase customer's awareness and loyalty
- Register trademarks and patents for the new product formulae and new corporate trademarks

The Group has improved the Company's website and strengthened the promotion in Internet as well as traditional media. The Group has registered 12 patents and a number of utility model patents.

Expand production capacity

- Construct new factory premises for a new production line for expansion of production capacity of the gelatin candies
- Acquire new and upgrade production facility or machinery for the existing production lines to achieve better economies of scale

The Group has invested in buildings, new factory premises and purchased new machinery and upgraded the existing machinery. The Group has also revamped the technical process, proactively carried out streamlining of the production process to boost production capacity and reduce the need for labour usage, and accumulated raw materials to satisfy the increased capacity.

Business plan as set out in the Prospectus

Attract and retain quality personnel

- Provide structured training that is designed to provide a clear career advancement track to motivate and incentivize the staff

Uplift marketing effort, expand distribution network and explore new business opportunities

- Increase points of sales in terms of number of self-operating stores and wholesale distributors and strengthen the co-operation with trading companies
- Strengthen marketing efforts such as to place printed and online advertisements, promote new products via different channels to explore new business opportunities

Progress up to 30 June 2017

The Group has enhanced the cooperation with various professional institutions and personnel. The Group has also employed professionals in every aspect to strengthen the team and provided training to the professionals to improve the management and efficiency. In addition, the Group has improved the employees' benefit to retain talents.

The Group has visited the overseas customers actively to explore new business opportunity and started using WeChat for Internet promotion and sales. The Group has cooperation with the traditional media to improve the Company's reputation and the brand popularity with the help of marketing events. The Group has also joined China Import and Export Fair, Fujian-Taiwan Food Fair and other exhibitions in Thailand, South Africa, France and Germany to explore the international and mainland China market and promote new products and also develop new markets and customers.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Listing were approximately HK\$36,000,000, which was based on the final placing price of HK\$0.2 per share after deducting the underwriting commission and actual expenses related to the Placing. Accordingly, the Group adjusted the use of proceeds in the same manner and proportion as shown in the Prospectus. Up to 30 June 2017, the net proceeds from the Placing had been applied as follows:

	Planned use of proceeds up to 30 June 2017 HK\$'000	Actual use of proceeds up to 30 June 2017 HK\$'000
Expand and enhance product offerings through continuous product development efforts	3,378	792
Continue to strengthen brand recognition and to develop new brands and series in order to enhance market position and to strengthen intellectual property protection	3,659	3,015
Expand production capacity	12,671	11,287
Attract and retain quality personnel	1,877	1,877
Uplift marketing effort, expand distribution network and explore new business opportunities	2,441	2,242
Repayment of existing bank borrowings	7,743	7,743
General working capital	1,455	1,455
Total	<u>33,224</u>	<u>28,411</u>

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 proceeds were applied based on the actual development of the Group's business, the actual situation and the industry.

The Directors will constantly evaluate the Group's business objective and will change or modify plans against the changing market condition to ascertain the business growth of the Group.

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

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017 and up to the date of this announcement.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the Shares (the "Code of Conduct"). Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the Code of Conduct for the six months ended 30 June 2017 and up to the date of this announcement.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions in the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules for the six months ended 30 June 2017.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 26 October 2015.

Since the adoption of the Share Option Scheme and up to the date of this announcement, no share options have been granted pursuant to the Share Option Scheme. There is no option outstanding, granted, cancelled and lapsed during the six months ended 30 June 2017.

INTEREST OF THE COMPLIANCE ADVISER

As confirmed by the Company's compliance adviser, TC Capital International Limited (the "Compliance Adviser"), save for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 13 February 2015, none of the Compliance Adviser or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company established an audit committee (the "Audit Committee") with written terms of reference aligned with the provision of the code provisions set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control procedures of the Group. As at the date of this announcement, the Audit Committee comprises Mr. Ong King Keung (chairman of the Audit Committee), Mr. Chiu Sai Chuen Nicholas and Ms. Tsui Suk Man, all of whom are independent non-executive Directors.

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, the interim report and the interim results announcement of the Group for the six months ended 30 June 2017. The condensed consolidated financial results for the six months ended 30 June 2017 are unaudited, but have been reviewed by the Audit Committee.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Each of the Directors or the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the six months ended 30 June 2017 and up to the date of this announcement.

PUBLICATION OF 2017 INTERIM REPORT

The 2017 interim report of the Company containing all the information required by the GEM Listing Rules will be despatched to the shareholders of the Company and will also be published on the website of the Company at <http://www.hollywoodfood.com/> and the "HKEXnews" website of the Stock Exchange at <http://www.hkexnews.hk>.

By order of the Board
CHINA CANDY HOLDINGS LIMITED
Li Yuna
Chairperson

Fujian, China, 4 August 2017

As at the date of this announcement, the executive Directors are Ms. Li Yuna, Ms. Hong Yinzhi and Ms. Yvonne Hung; and the independent non-executive Directors are Mr. Chiu Sai Chuen Nicholas, Mr. Ong King Keung and Ms. Tsui Suk Man.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the website of GEM at www.hkgem.com for at least seven days from the date of publication. This announcement will also be published on the website of the Company at www.hollywoodfood.com.