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Contel Technology Company Limited

康特隆科技有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1912)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the “**Board**”) of Contel Technology Company Limited (the “**Company**”) hereby presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2019 (the “**Period**”), together with comparative figures for the six months ended 30 June 2018 (the “**Preceding Period**”). The audit committee of the Company (the “**Audit Committee**”) has reviewed and discussed with the management of the Company the unaudited interim condensed consolidated financial statements of the Group for the Period.

FINANCIAL HIGHLIGHTS

	Six months ended	
	30 June 2019	30 June 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Revenue	36,691	30,580
Gross profit	3,830	4,140
Profit for the period	406	235
Profit for the period (excluding listing expenses)	1,560	1,500

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019 — unaudited

		Six months ended	
	<i>Notes</i>	30 June 2019 <i>US\$'000</i> (Unaudited)	30 June 2018 <i>US\$'000</i> (Unaudited)
Revenue	5	36,691	30,580
Cost of sales		(32,861)	(26,440)
Gross profit		3,830	4,140
Other income	5	162	40
Selling and distribution expenses		(708)	(714)
General and administrative expenses		(949)	(1,191)
Provision for allowance for expected credit loss on trade receivables		—	(65)
Listing expenses		(1,154)	(1,265)
Finance costs	6	(525)	(397)
Profit before income tax	7	656	548
Income tax expense	8	(250)	(313)
Profit for the period attributable to shareholders of the Company		<u>406</u>	<u>235</u>
		<i>US cents</i>	<i>US cents</i>
Earnings per share attributable to shareholders of the Company	9		
Basic and diluted		<u>0.068</u>	<u>0.039</u>

NON-HKFRS MEASURES

The following table sets forth a reconciliation between our profit for the period as presented in accordance with HKFRS, and our non-HKFRS adjusted profit:

	Six months ended	
	30 June 2019 <i>US\$'000</i> (Unaudited)	30 June 2018 <i>US\$'000</i> (Unaudited)
Profit for the period	406	235
Adjusted for:		
Listing expenses	1,154	1,265
Non-HKFRS adjusted profit for the period	<u>1,560</u>	<u>1,500</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019 — unaudited

	Six months ended	
	30 June 2019	30 June 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	<u>406</u>	<u>235</u>
Other comprehensive income/(expense) <i>Item that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences arising on translating foreign operations	<u>1</u>	<u>(42)</u>
Other comprehensive income/(expense) for the period attributable to the owners of the Company	<u>1</u>	<u>(42)</u>
Total comprehensive income for the period	<u><u>407</u></u>	<u><u>193</u></u>

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 30 June 2019 — unaudited

		30 June 2019	31 December 2018
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		956	113
Intangible assets		124	161
Goodwill		264	264
Life insurance policy deposits	<i>10</i>	1,397	873
		2,741	1,411
Current assets			
Inventories		9,333	6,547
Trade and bills receivables	<i>11</i>	22,054	19,007
Prepayments, deposits and other receivables		4,521	3,394
Amounts due from related parties	<i>16</i>	8	8
Pledged bank deposits	<i>12</i>	127	300
Cash and cash equivalents	<i>12</i>	3,672	2,874
		39,715	32,130
Current liabilities			
Trade and bills payables	<i>13</i>	23,626	16,887
Accruals, receipts in advance and other payables		1,369	1,398
Lease liabilities		428	—
Bank borrowings	<i>14</i>	2,131	1,310
Tax payable		571	434
		28,125	20,029

		30 June 2019	31 December 2018
	<i>Notes</i>	<i>US\$'000</i> (Unaudited)	<i>US\$'000</i> (Audited)
Net current assets		<u>11,590</u>	<u>12,101</u>
Total assets less current liabilities		<u>14,331</u>	<u>13,512</u>
Non-current liabilities			
Lease liabilities		<u>452</u>	<u>—</u>
		<u>452</u>	<u>—</u>
NET ASSETS		<u><u>13,879</u></u>	<u><u>13,512</u></u>
EQUITY			
Share capital	<i>15</i>	<u>—[#]</u>	<u>—[#]</u>
Reserves		<u>13,879</u>	<u>13,512</u>
TOTAL EQUITY		<u><u>13,879</u></u>	<u><u>13,512</u></u>

[#] Item with value below US\$1,000

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2019 — unaudited

	Equity attributable to owners of the Company						
	Share capital US\$'000	Other reserve US\$'000	Merger reserve US\$'000	Statutory surplus reserve US\$'000	Translation reserve US\$'000	Retained profits US\$'000	Total US\$'000
At 1 January 2019 (Audited)	— [#]	10,076	(7,021)	449	(38)	10,046	13,512
Impact on initial application of HKFRS 16	—	—	—	—	—	(40)	(40)
Adjusted balance at 1 January 2019	—	10,076	(7,021)	449	(38)	10,006	13,472
Profit for the period	—	—	—	—	—	406	406
Foreign currency translation differences for foreign operations	—	—	—	—	1	—	1
Total comprehensive income for the period	—	—	—	—	1	406	407
At 30 June 2019 (Unaudited)	—[#]	10,076	(7,021)	449	(37)	10,412	13,879
At 1 January 2018 (Audited)	— [#]	10,076	(7,021)	436	27	7,448	10,966
Profit for the period	—	—	—	—	—	235	235
Foreign currency translation differences for foreign operations	—	—	—	—	(42)	—	(42)
Total comprehensive income/ (expense) for the period	—	—	—	—	(42)	235	193
Appropriation to statutory surplus reserve	—	—	—	14	—	(14)	—
At 30 June 2018 (Unaudited)	—[#]	10,076	(7,021)	450	(15)	7,669	11,159

[#] Item with value below US\$1,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Corporate Information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 August 2016. The registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is Unit No. A, 13th Floor, Block 1, Leader Industrial Centre, Nos.188-202 Texaco Road, Tsuen Wan, New Territories, Hong Kong.

On 16 July 2019, the Company listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company while its principal subsidiaries are mainly engaged in the provision of customised reference designs which are bundled together with the sale of integrated circuits ("**ICs**") and other electronic components as a package to customers in both Hong Kong and the People's Republic of China (the "**PRC**").

These unaudited condensed consolidated interim financial statements (the "**interim financial statements**") are presented in United States dollars ("**US\$**"), unless otherwise stated. These interim financial statements were approved for issuance by the Board of Directors on 30 August 2019.

2. Basis of Preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants as well as the applicable disclosure requirement of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018 as presented in the share offer prospectus of the Company dated 29 June 2019 (the "**Prospectus**"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**").

These unaudited condensed consolidated interim financial statements have not been audited, but has been reviewed by the Company's audit committee.

2.1 New and amended standard adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had applied for the first time, the following amendment to the HKFRSs:

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK(IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 9 (Amendments)	Prepayment features with negative compensation	1 January 2019
HKAS 28 (Amendments)	Long-term interests in associates and joint venture	1 January 2019
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement	1 January 2019
Amendment to the HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

None of which has significant financial impact to the Group except for HKFRS 16.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sale and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group represents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

There are recognition exemptions for short-term leases and leases of low-value items. Short-term leases are leased with a lease term of 12 months or less at the commencement date. Low-value items are leases with insignificant value. Payments associated with short-term leases and leases of low value items are recognised on a straight-line basis as expenses in profit or loss.

The Group has adopted HKFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing standards are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate.

Each lease payment is allocated between the liability and finance cost. The finance cost will be charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

	<i>US\$'000</i>
Operating lease commitments disclosed as at 31 December 2018	1,172
Discounted using the lessess's incremental borrowing rate at the date of initial application, lease liabilities recognised as at 1 January 2019	<u>(88)</u>
	1,084
Accumulated depreciation recognised as at 1 January 2019	<u>(40)</u>
Right-of-use assets recognised as at 1 January 2019	<u><u>1,044</u></u>

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid rental expenses relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 December 2018 <i>US\$'000</i>	HKFRS 16 Contract Capitalisation <i>US\$'000</i>	1 January 2019 <i>US\$'000</i>
Non-current assets			
Right-of-use assets	—	1,044	1,044
Current liabilities			
Lease liabilities	—	(416)	(416)
Non-current liabilities			
Lease liabilities	—	(668)	(668)
Equity			
Retained profits	8,608	(40)	8,568

2.2 Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. Estimates

The preparation of unaudited condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

4. Segment Information

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by executive directors of the Company in order to allocate resources and assess performance of the segment. During the Period, executive directors received and reviewed information on the performance of the Group as a whole. Accordingly, it is determined that the Group has only one single operating segment, which is determined as sale of ICs including bundled services, for the purpose of allocating resources and assessing performance.

The Company is an investment holding company and the principal place of the Group's operation is in Hong Kong and the PRC. For the purpose of geographical segment information disclosures under HKFRS 8, the Group regarded Hong Kong as its place of domicile. All the Group's revenue from external customers is presented based on the location of the operating subsidiaries and the Group's non-current assets (excluding life insurance policy deposits) is presented based on the location of assets as follows:

	Six months ended	
	30 June 2019	30 June 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Revenue recognised at a point in time		
Hong Kong	21,964	15,670
The PRC	14,727	14,910
	<u>36,691</u>	<u>30,580</u>
		31 December
	30 June 2019	2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
Non-current assets		
Hong Kong	404	326
The PRC	940	212
	<u>1,344</u>	<u>538</u>

5. Revenue and Other Income

Revenue from the Group's principal activities, which is also the Group's turnover, represents the income from sale of ICs including the bundled services delivered to the customers and recognised at a point in time. Revenue and other income recognised during the Period are as follows:

	Six months ended	
	30 June 2019 <i>US\$'000</i> (Unaudited)	30 June 2018 <i>US\$'000</i> (Unaudited)
Revenue	<u>36,691</u>	<u>30,580</u>
Other income		
Bank interest income	6	1
Exchange gain, net	133	—
Imputed interest income on life insurance policy deposits	—	8
Others	23	31
	<u>162</u>	<u>40</u>

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sale of ICs including the bundled services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations that had an original expected duration of one year or less.

6. Finance Costs

	Six months ended	
	30 June 2019 <i>US\$'000</i> (Unaudited)	30 June 2018 <i>US\$'000</i> (Unaudited)
Interest on lease	22	—
Interest on bills payables	439	292
Interest on discounted bills	50	55
Interest on short-term bank loans	14	50
	<u>525</u>	<u>397</u>

7. Profit Before Income Tax

	Six months ended	
	30 June 2019	30 June 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Auditor's remuneration	—	9
Amortisation of intangible assets	36	36
Cost of inventories recognised as expenses	32,861	26,440
Depreciation of property, plant and equipment	235	24
Employee benefit expenses (including director's remuneration)		
Salaries and allowances	964	852
Bonus	—	6
Pension scheme contributions		
— Defined contribution plan	161	131
Exchange gain, net	133	—
Operating lease expenses	—	189
Allowances for expected credit loss on trade receivables	—	65
Impairment loss (reversal thereof) on inventories, net included in cost of inventories recognized as expenses	—	(2)
	—	(2)

8. Income Tax Expense

	Six months ended	
	30 June 2019	30 June 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Current tax expenses		
— Hong Kong Profits Tax	229	242
— PRC Corporate Income Tax	21	71
	250	313

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Hong Kong Profits Tax was calculated at the rate of 16.5% based on the HK Group Companies' estimated assessable profits arising in Hong Kong subsidiaries for the Preceding Period. The two-tiered profits tax regime (i.e. the first HK\$2.0 million of assessable profits will be taxed at 8.25%, and assessable profits above HK\$2.0 million will be taxed at 16.5%) is applicable to our HK Group Companies for the assessment year commencing on or after 1 April 2018.

The provision for PRC Corporate Income Tax is calculated at the standard rate of 25% on the estimated assessable income as determined in accordance with the relevant income tax rules and regulations of the PRC.

9. Earnings Per Share Attributable to Shareholders of the Company

The calculation of the basic earnings per share amounts is based on the following data:

	Six months ended	
	30 June 2019	30 June 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Profit attributable to shareholders of the Company	<u>406</u>	<u>235</u>
Weighted average number of ordinary shares in issue during the period	<u>600,000,000</u>	<u>600,000,000</u>

Prior to 21 June 2019, the number of issued share capital of the Company was 100,000.

On 21 June 2019, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000. Conditional upon the crediting of the share premium account of the Company as a result of the allotment and issue of the offer shares pursuant to the share offer upon Listing, our Directors are authorised to capitalise a sum of HK\$5,999,000 and apply such sum in paying up in full at par a total of 599,900,000 shares for allotment and issue to the shareholders immediately prior to the issue of shares under the share offer as to 539,910,000 shares to P.Grand (BVI) Ltd. and 59,990,000 shares to Kingtech (BVI) Ltd.

The number of shares used for the purpose of calculating basic earnings per share has been retrospectively adjusted for the issue of shares during the capitalisation issue of shares (note 15) as if the issuance of shares had occurred on 1 January 2018.

No adjustment has been made to the basic earnings per share amounts presented for the period in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the period.

10. Life Insurance Policy Deposits

In prior years, the Group entered into life insurance policies (the “**Policy**”) to insure one of the directors of the Company, Mr. Lam Keung and one of the senior management of the Group, Ms. Cheng Yu Pik. Under the Policy, the beneficiary and policy holder is the Group and the total insured sum was US\$3,991,000 as at 31 December 2018 and 30 June 2019. At inception of the Policy, the Group paid upfront payments of US\$264,960 and US\$260,005 during the year ended 31 December 2018. The Group can terminate the Policy at any time and can receive cash back based on the net nominal account value of the Policy at the date of withdrawal. Interest is earned at interest rates of at least those guaranteed by the insurer.

The premium charges and prepaid premium will be amortised to profit or loss through the expected life of the Policy of 38 years to 43 years. As at 31 December 2018 and 30 June 2019, the Policy was pledged to a bank to secure bills payables (note 12) and bank borrowings (note 14) granted to the Group.

11. Trade and Bills Receivables

	30 June 2019	31 December 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
Trade receivables	20,673	18,347
Less: allowance for expected credit loss on trade receivables	(91)	(91)
Trade receivables, net	20,582	18,256
Bills receivables	1,472	751
	<u>22,054</u>	<u>19,007</u>

The Group’s trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period granted is based on the historical trading and payment records of each customer, generally not more than four months. Extended credit terms may be granted for some major long-term customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group’s trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Ageing analysis of the Group's trade receivables, based on the invoice dates, that are not impaired as at each reporting date is as follows:

	30 June 2019	31 December 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
1–30 days	8,026	6,780
31–90 days	8,711	6,926
91–120 days	1,472	2,600
Over 120 days	2,373	1,950
	<u>20,582</u>	<u>18,256</u>

Ageing analysis of the Group's bills receivables, based on the bills receipt dates as at each reporting date is as follows:

	30 June 2019	31 December 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
1–30 days	244	549
31–90 days	287	202
91–120 days	213	—
Over 120 days	728	—
	<u>1,472</u>	<u>751</u>

12. Pledged Bank Deposits and Cash and Cash Equivalents

	30 June 2019	31 December 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
Cash and cash equivalents:		
Cash in hand and bank balances	<u>3,672</u>	<u>2,874</u>
Pledged bank deposits	<u>127</u>	<u>300</u>

At 30 June 2019 and 31 December 2018, the cash and bank balances of the Group denominated in RMB amounted to approximately US\$261,000 and US\$349,000 respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earned interest at floating rates based on daily bank deposit rates. The bank balances were deposited with creditworthy banks with no recent history of default.

At 30 June 2019 and 31 December 2018, the Group's bank deposits of US\$127,000 and US\$300,000, respectively, pledged to secure the bills payables (note 11).

13. Trade and Bills Payables

	30 June 2019 US\$'000 (Unaudited)	31 December 2018 US\$'000 (Audited)
Trade payables	10,998	6,569
Bills payables	12,628	10,318
	<u>23,626</u>	<u>16,887</u>

Ageing analysis of trade payables, based on invoice dates, as at the end of reporting period is shown as follow:

	30 June 2019 US\$'000 (Unaudited)	31 December 2018 US\$'000 (Audited)
1–30 days	7,518	3,798
31–90 days	3,471	2,580
91–120 days	2	127
Over 120 days	7	64
	<u>10,998</u>	<u>6,569</u>

At 31 December 2018 and 30 June 2019, all bills payables were secured by an assignment over the Policy (note 10), pledged bank deposits (note 12) and an unlimited personal guarantee executed by a director of the Company, Mr. Lam Keung. The guarantee was released upon listing.

14. Bank Borrowings

	30 June 2019	31 December 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
Current		
Bank borrowings — secured (<i>note (a)</i>)	736	969
Discounted bills with recourse (<i>note (b)</i>)	1,395	341
	<u>2,131</u>	<u>1,310</u>

Notes:

- (a) At 31 December 2018 and 30 June 2019, bank borrowings with carrying amount of approximately US\$969,000 and US\$736,000 respectively were secured by an assignment over the Policy (note 10) and an unlimited personal guarantee provided by a director of the Company, Mr. Lam Keung. Interest was charged at a rate of 4.0% and rate of 4.0% per annum as at 31 December 2018 and 30 June 2019, respectively. The guarantee was released upon Listing.
- (b) At 31 December 2018 and 30 June 2019, all borrowings from discounting of bills with recourse were secured by certain bills receivables of the Group with carrying amount of approximately US\$341,000 and US\$1,395,000, respectively (note 11). Interest is charged in the range from 5.4% to 6.8% per annum during the periods.

15. Share Capital

	30 June 2019	31 December 2018
	<i>US\$</i>	<i>US\$</i>
	(Unaudited)	(Audited)
Issued and fully paid		
100,000 ordinary shares of HK\$0.01 each	<u>129</u>	<u>129</u>

The Company was incorporated in the Cayman Islands on 16 August 2016 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of par value of HK\$0.01 each. Pursuant to the resolutions in writing of the sole shareholder passed on 21 June 2019, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000 divided into 2,000,000,000 shares of par value of HK\$0.01 each.

Prior to 21 June 2019, the number of issued share capital of the Company was 100,000.

On 21 June 2019, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000. Conditional upon the crediting of the share premium account of the Company as a result of the allotment and issue of the offer shares pursuant to the share offer upon Listing, our Directors are authorised to capitalise a sum of HK\$5,999,000 and apply such sum in paying up in full at par a total of 599,900,000 shares for allotment and issue to the shareholders immediately prior to the issue of shares under the share offer as to 539,910,000 shares to P.Grand (BVI) Ltd. and 59,990,000 shares to Kingtech (BVI) Ltd.

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital US\$ (Unaudited)
At 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019	<u>100,000</u>	<u>129</u>

16. Related Party Disclosures

The Group had the following transactions with related parties during the Period:

(a) *Balances with related parties*

		30 June 2019	31 December 2018
	<i>Notes</i>	US\$'000 (Unaudited)	<i>US\$'000 (Audited)</i>
Balances at the end of the period/year			
Advances from related companies	<i>(i), (ii)</i>	<u>8</u>	<u>8</u>

Notes:

- (i) P. Grand (BVI) Ltd. and Kingtech (BVI) Ltd. are the related companies controlled by Mr. Lam and Mrs. Qing, respectively.
- (ii) Amounts due were unsecured, non-interest bearing and repayable on demand. Amounts will be settled prior to Listing.

(b) Compensation of key management personnel

	Six months ended	
	30 June 2019	30 June 2018
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Short-term employee benefits	122	120
Pension scheme contributions	12	8
	<hr/>	<hr/>
Total compensation paid to key management personnel	<u>134</u>	<u>128</u>

17. Events after the Reporting Period

The Company was listed on the Stock Exchange on 16 July 2019, gross proceeds of HK\$130 million was raised.

Upon Listing, personal guarantee provided by one of our Directors, Mr. Lam Keung, in respect of life insurance policy; bills payables and bank borrowings were released.

18. Approval of the Interim Condensed Consolidated Financial Statements

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 30 August 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

1. OVERVIEW

The Group primarily engage in the sourcing and sale of Integrated circuit (“IC”) products and the provisions of IC application solutions and value-added services to suit the needs of our customers. Our business is focused on fast-growing and emerging market categories, with an emphasis on providing environmentally-friendly and energy-saving solutions.

After years of continuous efforts, the Group has become a well-established fabless semiconductor application solutions provider specializing in the provision, design and development of IC application solutions and sale of ICs for consumer and industrial products. The aim of the Group is to strengthen our market position within the IC application solutions industry by increasing our market share and enhancing the quality of our services. We believe that this will bring sustainable growth to our business and create long-term value in the Group for our Shareholders.

2. BUSINESS REVIEW

The Group focuses on the consumer and industrial product sectors, we source and sell IC products. We also provide IC application solutions and value-added services to suit the needs of our customers. While our application solutions can be utilised in a wide range of electronic products, we specialise in the following five major product categories: (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation.

Breakdown of our revenue generated by product category for the six months ended 30 June 2019 and the six months ended 30 June 2018 is set forth below:

	For the six months ended			
	30 June 2019		30 June 2018	
	<i>USD'000</i>	%	<i>USD'000</i>	%
Mobile devices and smart charging	24,091	65.7	15,662	51.2
Motor control	5,652	15.4	7,364	24.1
RF power	2,772	7.5	3,442	11.3
LED lighting	2,127	5.8	3,161	10.3
Sensors and automation	2,049	5.6	951	3.1
Total	<u>36,691</u>	<u>100.0</u>	<u>30,580</u>	<u>100.0</u>

Breakdown of our gross profit by product category for the Period and the Preceding Period is set forth below:

	For the six months ended			
	30 June 2019		30 June 2018	
	<i>USD'000</i>	<i>%</i>	<i>USD'000</i>	<i>%</i>
Mobile devices and smart charging	1,922	50.2	2,096	50.6
Motor control	678	17.7	954	23.0
RF power	810	21.1	511	12.4
LED lighting	211	5.5	487	11.8
Sensors and automation	209	5.5	92	2.2
Total	<u>3,830</u>	<u>100.0</u>	<u>4,140</u>	<u>100.0</u>

3. FINANCIAL REVIEW

Revenue

Revenue for the Period is approximately US\$36,691,000 as compared to approximately US\$30,580,000 for the Preceding Period, which represents an increase of approximately 19.98%. This is mainly attributed to the growth of business of the mobile devices and smart charging category.

Cost of sales

Cost of sales for the Period is approximately US\$32,861,000 as compared to approximately US\$26,440,000 for the Preceding Period, which represents an increase of approximately 24.29%. Cost of sales mainly comprised of (i) material costs; (ii) staff costs; and (iii) transportation and logistics costs. Our material costs which represented our procurement costs of ICs, which formed the largest component of our cost of sales. The increase is in line with the increase in revenue.

Gross profit and gross profit margin

For the Period, the Group recorded gross profit of approximately US\$3,830,000, as compared to US\$4,140,000 for the Preceding Period, a decrease of approximately us\$310,000 is primary attributable to the fact that we generated lower gross profit for mobile devices and smart charging from the sales of application solution of smart watch and IoT module. The Group recorded an overall gross profit margin of approximately 10.4% and 13.5% for the Period and the Preceding Period, respectively.

Selling and distribution expenses

For the Period, the Group recorded selling and distribution expenses of US\$708,000, as compared to US\$714,000 for the Preceding Period, a decrease of approximately US\$6,000 is noted. Selling and distribution expenses accounted for approximately 1.9% and 2.3% of revenue for the Period and the Preceding Period, respectively.

General and administration expenses

For the Period, the Group recorded general and administration expenses of US\$949,000, as compared to US\$1,191,000 for the Preceding Period, a decrease of approximately US\$242,000 is we recorded from exchange loss to exchange gain. General and administration expenses accounted for 2.6% and 3.9% of revenue for the Period and the Preceding Period, respectively. For the Period, general and administration expenses mainly attributed to staff cost of approximately US\$1,125,000 (Preceding Period: US\$989,000), operating lease expenses of Nil (Preceding Period: US\$189,000) and, depreciation of approximately US\$235,000 (Preceding Period: US\$24,000).

Provision for allowance for expected credit loss on trade receivables

The Group recorded provision for allowance for expected credit loss on trade receivables of Nil and US\$65,000 for the Period and the Preceding Period respectively. Provision for allowance for expected credit loss on trade receivables accounted for approximately 0.2% of revenue for the Preceding Period.

Listing expenses

The Group recorded listing expenses of approximately US\$1,154,000 and US\$1,265,000 for the Period and the Preceding Period respectively. Listing expenses accounted for approximately 3.1% and 4.1% of revenue for the Period and the Preceding Period.

Finance costs

For the Period, the Group recorded finance costs of approximately US\$525,000, as compared to US\$397,000 for the Preceding Period, an increment of approximately US\$128,000 is noted. For the Period, finance costs accounted for approximately 1.4% of the total revenue (Preceding Period: 1.3%). The Group's finance costs primarily represented our interest expenses incurred for short-term bank loans and the use of our trade financing facilities.

Profit before income tax

The Group recorded profit before income tax of approximately US\$656,000 and US\$548,000 for the Period and the Preceding Period respectively.

The Group recorded profit before income tax (excluding listing expenses) of approximately US\$1,810,000 and US\$1,813,000 for the Period and the Preceding Period respectively.

Income tax expenses

During the Period, the Group's income tax expenses comprised provision for Hong Kong Profits Tax and Enterprise Income Tax.

The effective tax rate of the Group is approximately 38.1% and 57.1% for the Period and the Preceding Period respectively. The effective tax rate of the Group excluding listing expenses is approximately 13.8% and 17.3% respectively.

Profit for the period

The Group recorded profit for the period attributable to shareholders of the Company of approximately US\$406,000 and US\$235,000 for the Period and the Preceding Period respectively.

The Group recorded profit for the period (excluding listing expenses) attributable to shareholders of the Company approximately US\$1,560,000 and US\$1,500,000 for the Period and the Preceding Period respectively.

Net current assets

The Group's net current assets decreased by approximately US\$511,000 from approximately US\$12,101,000 as at 31 December 2018 to approximately US\$11,590,000 as at 30 June 2019. The increase was mainly due to (i) increase in inventories of approximately US\$2,786,000; and (ii) increase in trade and bill receivables of approximately US\$3,047,000, partially offset by (i) increase in trade payables of approximately US\$6,739,000; (ii) increase in bank borrowings of approximately US\$821,000; and (iii) increase in lease liabilities of approximately US\$428,000.

Indebtedness

Bank borrowings

As at 30 June 2019, our bank loans of approximately US\$2,131,000, was secured by (i) assignments of over our life insurance policies; and (ii) unlimited personal guarantees provided by Mr. Lam Keung, which was released upon Listing.

As at 31 December 2018, our bank loans of approximately US\$1,310,000, was secured by (i) assignments of over our life insurance policies; and (ii) unlimited personal guarantees provided by one of our directors, Mr. Lam Keung.

Lease liabilities

As at 30 June 2019, the Group had current and non-current lease liabilities of approximately US\$880,000 which represented the outstanding lease liabilities in respect of the leases of our office and warehouses upon the adoption of HKFRS 16 from 1 January 2019.

Banking facilities

As at 30 June 2019, the total banking facilities granted to the Group amounted to approximately US\$13,000,000, of which approximately US\$200,000 of our banking facilities as at 30 June 2019 were not utilised, which were committed, unrestricted and could be drawn down at any time.

As at 31 December 2018, the total banking facilities granted to the Group amounted to approximately US\$10,500,000, of which approximately US\$200,000 of our banking facilities as at 31 December 2018 were not utilised, which were committed, unrestricted and could be drawn down at any time.

Foreign currency exposure

The Group is exposed to foreign currency risk related primarily to sales and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Renminbi (“**RMB**”). The Group does not hold or issue any derivative financial instruments for trading purposes or to hedge against fluctuations in foreign exchange rates.

Human resources and remuneration policy

At 30 June 2019, the total number of employees of the Group (excluding Directors) was approximately 105 (31 December 2018: approximately 99). Most of them were located in the PRC. Remuneration offered by the Group was determined in accordance with the relevant policies in Hong Kong and the PRC and with reference to market trends, as well as individual competence and performance of the staff. Other related benefits included contributions to Mandatory Provident Fund Schemes, social insurance, medical insurance funds and other applicable contributions in accordance with the relevant laws and regulations.

Pledge of assets

At 30 June 2019 and 31 December 2018, life insurance policy deposits were pledged to a bank to secure bills payables and bank borrowings granted to the Group, further details are disclosed in notes 10, 12 and 14 to the interim condensed consolidated financial statements in this report.

Commitments

At 30 June 2019 and 31 December 2018, the Group had no material capital commitment.

Contingent liabilities

Save as disclosed in the section headed “Indebtedness” in this section, as at 31 December 2018 and 30 June 2019, the Group did not have any significant contingent liabilities. Currently, the Group is not a party to any litigation that is likely to have a material adverse effect on our business, results of operations or financial condition.

Interim dividend

The Board resolved not to declare any interim dividend for the six months ended 30 June 2019 (Six months ended 30 June 2018: Nil).

Events after the reporting period

Events after the reporting period are more particularly delineated in note 17 to the interim condensed consolidated financial statements in this report.

4. FUTURE PROSPECT

Looking forward to the second half of 2019, amid the US-China trade war, global economy would be challenging, yet the management is confident that steady growth could be achieved by the Group. As 5G is rolling out in China in the second half of 2019, the mobile devices and smart charging category will continue to contribute to our business growth. The management will monitor the economic and technological development closely and formulate an appropriate business plan, in order to enhance the development of our Group.

OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Group is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimise return for the Shareholders.

The Company was listed on 16 July 2019. Since the Listing Date to the date of this announcement, save as disclosed below, the Company has complied with the Corporate Governance Code:

A.2.1 Roles of chairman and chief executive officer

Code Provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lam Keung is both our Chief Executive Officer and Chairman. Our Board believes that vesting the roles of both Chief Executive Officer and Chairman in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within our Group. Our Group considers that the balance of power and authority of the present arrangement will not be impaired as the Board comprises five other experienced and high-caliber individuals including two other executive Directors and three independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of our Group, the Board will make consultations with appropriate Board committees and senior management. Therefore, our Directors consider that the present arrangement is beneficial to and in the interest of our Company and our Shareholders as a whole and the deviation from Code A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors in July 2019.

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions since the Listing Date and up to the date of this report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to the date of this announcement.

REVIEW OF FINANCIAL INFORMATION BY THE AUDIT COMMITTEE

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have been reviewed by the audit committee, comprising solely the independent non-executive Directors of the Company, and agree to the auditing policy and practices adopted by the Group.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the Shareholders passed on 21 June 2019 (the "**Adoption Date**"), the Company has adopted the share option scheme (the "**Share Option Scheme**"), for the purpose of giving the eligible participants as incentives or rewards to recognize and acknowledge their contributions or potential contributions to the Company and/or any of the subsidiaries. The Share Option Scheme will provide eligible participants an opportunity to have a personal stake in the Company with the view to motivate the eligible participants to optimize their performance efficiency for the benefits of the Company and/or of the subsidiaries; and attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Company and/or of the subsidiaries.

Further details of the Share Option Scheme are set in the paragraph headed "Share Option Scheme" under the section headed "Statutory and General Information" of the Prospectus.

Since the Adoption Date and up to the date of this interim report, no options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

SUFFICIENCY OF PUBLIC FLOAT

At the latest practicable date prior to the issue of this report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Company maintained sufficient public float as required under the Listing Rules throughout the Period.

PUBLICATION OF RESULTS ON WEBSITES

Pursuant to Appendix 16 to the Listing Rules, the results of the Company will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.conteltechnology.com) in due course.

By Order of the Board
Contel Technology Company Limited
Lam Keung
Chairman

Hong Kong,
30 August, 2019

As at the date of this announcement, the Board comprises Mr. Lam Keung, Mr. Qing Haodong and Mr. Mai Lu as executive directors; Mr. Dan Kun Lei, Raymond, Mr. Wong Kwun Ho and Mr. Lai Man Shun as independent non-executive directors.