# Contel Technology Company Limited
# 康特隆科技有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1912)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019 AND APPOINTMENT OF EXECUTIVE DIRECTOR


### SUMMARY OF ANNUAL RESULTS

- Revenue for the Year amounted to approximately US$101.5 million, representing a year-on-year increase of approximately 50.8%.

- Gross profit for the Year amounted to approximately US$11.5 million, representing a year-on-year increase of approximately 22.0%. Gross profit margin decrease by 19.1% to approximately 11.3%.

- The core net profit (excluding listing expenses) attributable to owners of the parent for the Year amounted to US$5.2 million, representing a year-on-year increase of 25.7%.

- The basic and diluted earnings per share for the Year were HK$2.8 cents, representing a year-on-year decrease of 17.6%.

### FINAL DIVIDEND AND BONUS SHARE ISSUE

- In view of the global economic slowdown, the Group intends to conserve cash resources to finance operations and business development and therefore the Board did not recommend the payment of a final dividend for the year 2019 (2018: Nil).

- The Board recommended the issue of bonus shares on the basis of one bonus share for every ten existing Shares held by the Shareholders, subject to the approval of the Shareholders at the forthcoming AGM. The resolutions will be proposed at the forthcoming AGM. Further information of the issue of the bonus shares will be announced by the Company and such information will also be set out in a circular for despatch by the Company to the Shareholders in due course.

## CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**"), I am pleased to present the first annual results of Contel Technology Company Limited (the "**Company**" or "**Contel**") and its subsidiaries (the "**Group**") for the year ended 31 December 2019 after the successful listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 16 July 2019 ("**Listing Date**").

For the year ended 31 December 2019, revenue of Contel amounted to US$101.5 million, representing a increase of 50.8% as compared to US$67.3 million for the year ended 31 December 2018. Profit attributable to shareholders of the Company (the "**Shareholders**") amounted to US$2.5 million, representing an decrease of 3.8% as compared to US$2.6 million for the year ended 31 December 2018. For the year ended 31 December 2019, basic earnings per share amounted to 2.8 HK cents, representing an decrease of 17.6% as compared to last year. Profit attributable to Shareholders in 2019 was lower as a result of Listing expenses of US$2.7 million incurred during the year (2018: US$1.5 million).

## SUMMARY

The Group's performance benefited from the accelerating growth of IoT solution in the Year and recorded uptrend starting from the second half of 2019. Capitalising on its successful business model and industry-leading competitive strengths, the Group delivered remarkable performance that outperformed the overall market. For the year ended 31 December 2019, the Group has delivered total revenue growth of 50.8% year-on-year.

## BUSINESS REVIEW

### Revenue

For the year ended 31 December 2019, revenue derived from mobile devices and smart charging was US$76.6 million, representing an increase of 121.5% as compared to last year, which was mainly boosted by rising demand of the fast technology advancements and wide applications of mobile phones and IoT devices, etc., in the world, especially in the PRC. Owing to the increase in the sales demand of the variable-frequency drive electronic products and photography and videography stabilisation product (Gimbal) in the PRC, the revenue of motor control recorded was US$11.8 million, representing a decrease of 26.8% as compared to last year. For sensors and automation, the revenue was US$4.6 million, representing an increase of 96.6% as compared to last year, which was mainly boosted by (i) capitalise on this exponentially growing sector by, including developing applications to be used different sensors which would be applied and incorporated in personal mobile devices and smart lighting systems in buildings; and (ii) devoting resources and expanding our capabilities in the sensors and automation category in order to fully harness the huge potential prospects that are to be brought about by IoT.

## BUSINESS OUTLOOK

In 2020, IC application solutions and IC related services remain highly competitive. We will continue to operate diligently with a view to make the Company prosper, so as to further develop and grow.

For our primary business, the Group will continue to grow our strengths in expertise for semiconductor products with focus on quality, environmentally-friendly and energy-saving solutions. We will keep on investing resources in circuitry design, transferring and fitting the circuitry layout onto PCBs, designing appropriate software where needed, developing prototype evaluation boards, sourcing and suggesting specific brands of ICs required, and then producing reference designs according to customers' requirements or specifications.

During our long research and development history, we have accumulated much experience and capacity in the development of application solutions and have established an outstanding technical team. We would make every endeavor to explore more business opportunities in different application solution so as to strengthen the Group's financial position.

In addition, the Company will actively explore the possibilities of external strategic investment and cooperation, in particular business opportunities which can enhance the stability and diversity of our product offerings and revenue.

In March 2020, the WHO announced COVID-19 as a pandemic, as such it is likely to bring about fluctuations in the demand of different end markets. As there is still great uncertainty of the spread of the epidemic, the degree of impact on different end markets and different customers may vary; consequently, the impact on the Group cannot be predicted at this stage.

The Group will make use of the advantages of the listing platform to deepen its strategic alliances and promote further expansion. Further, the Group will continue its strategy through organic growth and will look out for suitable strategic acquisition with a view to accelerate our growth trajectory and to seize market development opportunities to maximize returns for Shareholders.

## APPRECIATION

On behalf of the Board, I would like to express our gratitude to the Shareholders and business partners for their trust and long-term support to the Group. Moreover, I would also like to express gratitude to the Board, the management of the Company and all employees for their persistent efforts and contributions in the past few years. In 2020, the Company will continue to strive achieving better results to bring better return for the Shareholders.

**LAM KEUNG**
*Chairman*
27 March 2020

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2019*

| | Notes | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|---|
| Revenue | 4 | **101,461** | 67,279 |
| Cost of sales | | **(89,987)** | (57,874) |
| **Gross profit** | | **11,474** | 9,405 |
| Other income | 4 | **161** | 89 |
| Selling and distribution expenses | | **(1,726)** | (1,546) |
| General and administrative expenses | | **(2,502)** | (1,900) |
| Provision for allowance for expected credit loss on trade receivables | 10 | **(111)** | (91) |
| Listing expenses | | **(2,709)** | (1,543) |
| Finance costs | 5 | **(1,027)** | (864) |
| **Profit before income tax** | 6 | **3,560** | 3,550 |
| Income tax expense | 7 | **(1,047)** | (939) |
| **Profit for the year attributable to owners of the Company** | | **2,513** | 2,611 |
| **Other comprehensive income** | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translating foreign operations | | **(21)** | (65) |
| **Other comprehensive income for the year attributable to the owners of the Company** | | **(21)** | (65) |
| **Total comprehensive income for the year attributable to owners of the Company** | | **2,492** | 2,546 |
| | | ***HK cents*** | *HK cents* |
| **Earnings per share attributable to owners of the Company** | | | |
| Basic and diluted | 8 | **2.81** | 3.41 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2019*

| | Notes | **2019** **US$'000** | 2018 US$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **809** | 113 |
| Intangible assets | | **89** | 161 |
| Goodwill | | **261** | 264 |
| Life insurance policy deposits | | **1,403** | 873 |
| | | **2,562** | 1,411 |
| **Current assets** | | | |
| Inventories | | **12,909** | 6,547 |
| Trade and bills receivables | 10 | **25,696** | 19,007 |
| Prepayments, deposits and other receivables | | **9,794** | 3,394 |
| Amounts due from related parties | | **12** | 8 |
| Pledged bank deposits | | **1,229** | 300 |
| Cash and cash equivalents | | **6,263** | 2,874 |
| | | **55,903** | 32,130 |
| **Current liabilities** | | | |
| Trade and bills payables | 11 | **23,211** | 16,887 |
| Accruals, receipts in advance and other payables | | **2,050** | 1,398 |
| Lease liabilities | | **382** | — |
| Bank borrowings | | **1,401** | 1,310 |
| Tax payable | | **1,353** | 434 |
| | | **28,397** | 20,029 |
| **Net current assets** | | **27,506** | 12,101 |
| **Total assets less current liabilities** | | **30,068** | 13,512 |
| **Non-current liabilities** | | | |
| Lease liabilities | | **279** | — |
| **Net assets** | | **29,789** | 13,512 |
| **EQUITY** | | | |
| Share capital | 12 | **1,032** | —* |
| Reserves | | **28,757** | 13,512 |
| **Total equity** | | **29,789** | 13,512 |

* *Item with value below US$1,000*

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 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.

Since 16 July 2019, the Company shares have been listed 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 (together with the Company, collectively referred to as the "**Group**") 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**").

The Group underwent a reorganisation during the year ended 31 December 2017. Details of the reorganisation were included in the Company's prospectus dated 29 June 2019.

### 2. Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collectively includes all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations ("**Int**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on Main Board of the Stock Exchange (the "**Listing Rules**"). The HKICPA has issued several new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group.

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries. The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

The Company and the investment holding subsidiary incorporated in the British Virgin Islands (the "**BVI**") and subsidiaries established in Hong Kong have their functional currency in United States Dollar ("**US$**"), and subsidiaries established in the PRC have their functional currency in Renminbi ("**RMB**"). The consolidated financial statements have been presented in US$ and all values are rounded to the nearest thousand except when otherwise indicated.

**(a) Adoption of new and revised Hong Kong Financial Reporting Standards**

In the preparation of the consolidated financial statements for the year ended 31 December 2019, the Group has applied, for the first time, the following revised standards issued by the HKICPA.

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC)—Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle |

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

***HKFRS 16 Leases***

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("**HKAS 17**"), and the related interpretations.

*Definition of a lease*

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)—Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

*As a lessee*

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

On transition, the Group has made the following adjustments upon application HKFRS 16:

At 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16. C8 (b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied by the relevant group entities range from 3.3% and 4.9%.

| | **At 1 January 2019** ***US$'000*** |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | **1,172** |
| Lease liabilities discounted at relevant incremental borrowing rates | **(88)** |
| | **1,084** |
| Lease liabilities as at 1 January 2019 | |
| Analysed as | |
| Current | **416** |
| Non-current | **668** |
| | **1,084** |

The following table summarises the impact of transition of HKFRS 16 on retained profits at 1 January 2019.

| | **Impact of application HKFRS 16 at 1 January 2019** |
|---|---|
| | ***US$'000*** |
| Retained profits | |
| Depreciation of right-of-use assets from commencement dates upon application of HKFRS 16 | **396** |
| Interest on lease liabilities from commencement dates upon application of HKFRS 16 | **68** |
| Less: lease expenses of operating leases under HKAS17 before 1 January 2019 | **(424)** |
| Impact at 1 January 2019 | **40** |

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31 December 2018 | Adjustments | **Carrying amounts under HKFRS 16 at 1 January 2019** |
|---|---|---|---|
| | *US$'000* | *US$'000* | ***US$'000*** |
| **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 | 10,046 | (40) | **10,006** |

**(b) New and amendments to HKFRSs that issued but not yet effective for the year ended 31 December 2019**

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| Amendments to HKFRS 3 | Definition of a Business | 1 January 2020 |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material | 1 January 2020 |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform | 1 January 2020 |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting | 1 January 2020 |

The Group is in the process of making an assessment of the impact of these amendments and new standards expected to be in the period of initial application. So far, the Group has not identified any aspects of the new standards which may have a significant impact on the consolidated financial statements. The actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's annual report for the year ending 31 December 2020. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in the consolidated financial statements.

## 3. 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 year ended 31 December 2018 and 2019, the 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 *Operating Segment*, 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:

| | **2019** | 2018 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| **Year ended 31 December** | | |
| Revenue recognised at a point in time | | |
| Hong Kong | **68,651** | 37,372 |
| The PRC | **32,810** | 29,907 |
| | **101,461** | 67,279 |
| **At 31 December** | | |
| Non-current assets | | |
| Hong Kong | **344** | 326 |
| The PRC | **815** | 212 |
| | **1,159** | 538 |

During the year ended 31 December 2019, the Group generated revenue primarily from the sale of five categories of ICs products, comprising IC products for: (i) mobile devices and smart charging; (ii) motor control; (iii) radio frequency ("**RF**") power; (iv) light-emitting diode ("**LED**") lighting; and (v) sensor and automation. The following table sets out the breakdown of the revenue recognised at a point in time by product category:

| | **2019** | 2018 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Mobile devices and smart charging | **76,550** | 34,554 |
| Motor control | **11,843** | 16,186 |
| Sensor and automation | **4,633** | 2,356 |
| LED lighting | **4,492** | 6,759 |
| RF power | **3,943** | 7,424 |
| | **101,461** | 67,279 |

## 4. 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 year are as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| *Revenue from contract with customers within the scope of HKFRS 15, types of goods or services* | | |
| Sale of ICs | **101,461** | 67,279 |
| *Other income* | | |
| Bank interest income | **80** | 5 |
| Exchange gain, net | **—** | 3 |
| Imputed interest income on life insurance policy deposits | **43** | 36 |
| Others | **38** | 45 |
| | **161** | 89 |

## 5. Finance costs

| | 2019<br>*US$'000* | 2018<br>*US$'000* |
|---|---|---|
| Interest on bills payables | **887** | 693 |
| Interest on discounted bills | **75** | 104 |
| Interest on lease liabilities | **39** | — |
| Interest on short-term bank loans | **26** | 67 |
| | **1,027** | 864 |

## 6. Profit before income tax

Profit before income tax is arrived at after charging/(crediting):

| | 2019<br>*US$'000* | 2018<br>*US$'000* |
|---|---|---|
| Auditor's remuneration | **77** | 25 |
| Amortisation of intangible assets | **72** | 72 |
| Amortisation of life insurance policy deposits | **34** | 51 |
| Cost of inventories recognised as expenses | **89,987** | 57,874 |
| Depreciation of property, plant and equipment | **475** | 41 |
| Employee benefit expenses (including directors' remuneration *(note (i))* | | |
| — Salaries, allowances and bonus | **2,090** | 1,963 |
| — Pension scheme contributions — defined contribution plan | **321** | 276 |
| Exchange loss/(gain), net | **56** | (3) |
| Operating lease expenses *(note (ii))* | **—** | 426 |
| Reversal thereof on inventories, net included in cost of inventories recognised as expenses | **—** | (128) |

*Notes:*

(i) Employee benefit expenses are included in cost of sales, selling and distribution expenses and general and administrative expenses.

(ii) Amount in 2018 represents the lease rentals recognised over the lease terms for operating leases under HKAS 17. Upon adoption of HKFRS 16 as disclosed in note 2(a), the minimum lease payments under operating lease charges are no longer recognised under operating lease expenses.

## 7. Income tax expense

| | **2019** | 2018 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Current tax expenses | | |
| — Hong Kong Profits Tax | **950** | 811 |
| — PRC Corporate Income Tax | **97** | 128 |
| | **1,047** | 939 |

*Notes:*

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 6) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year (2018: 16.5%).

(iii) The provision for the PRC Corporate Income Tax was based on the statutory rate of 25% of the assessable profits of subsidiaries which carried on businesses in the PRC during the year (2018: 25%).

A reconciliation of the income tax expenses applicable to profit before income tax at the statutory tax rate to income tax expenses at the effective tax rate is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Profit before income tax | **3,560** | 3,550 |
| Notional tax on profit before income tax, calculated at the applicable tax rates | **630** | 619 |
| Effect of non-deductible expense | **467** | 385 |
| Effect of non-taxable income | **(39)** | (18) |
| Effect of tax concession | **(21)** | (21) |
| Effect of unrecognised/(utilised) tax losses, net | **10** | (26) |
| Income tax expense | **1,047** | 939 |

At 31 December 2019, the Group has not recognised deferred tax assets in respect of tax losses as the Group has no accumulative unused tax loss brought forward to set off assessable profit (2018: Nil).

At 31 December 2019, there are no material deferred tax asset or liabilities not being recognised (2018: Nil).

## 8. Earnings per share

### *(a) Basic earnings per share*

The basic earnings per share for the year ended 31 December 2019 is calculated based on the profit for the year attributable to owners of the Company of approximatley US$2,513,000 and the weighted average of approximately 692,603,000 ordinary shares, comprising:

(i) 100,000 ordinary shares in issue as at the date of the prospectus of the Company dated 16 July 2019 (the "**Prospectus**"); and 599,900,000 ordinary shares issued pursuant to the capitalisation issue on the completion of the initial public offering, as if the above total of 600,000,000 ordinary shares were outstanding throughout the year ended 31 December 2019; and

(ii) 200,000,000 ordinary shares issued on 16 July 2019 by initial public offering.

The basic earnings per share for the year ended 31 December 2018 is calculated based on the profit for the year attributable to owners of the Company of approximately US$2,611,000 and the weighted average of 600,000,000 ordinary shares, comprising 100,000 ordinary shares in issue as at the date of the Prospectus and 599,900,000 ordinary shares issued pursuant to the capitalisation issue on the completion of the initial public offering, as if the above total of 599,900,000 ordinary shares were outstanding throughout the year ended 31 December 2018.

***(b) Diluted earnings per share***

There were no potential dilutive shares outstanding during the year ended 31 December 2019 (2018: Nil).

## 9. Dividends

No interim dividend was declared for the year (2018: Nil).

Subsequent to the end of the Year, a bonus issue ("**Bonus Issue**") on the basis of one bonus share ("**Bonus Share**") for every ten existing shares held by the Shareholders, subject to the approval of the Shareholders at the forthcoming Annual General Meeting ("**AGM**"). The resolution will be proposed at the forthcoming AGM. Further information of the Bonus Share will be published by the Company and such information will also be set out in a circular for dispatch by the Company to the Shareholders in due course. The Bonus Shares will be credited as fully paid by way of capitalisation of an amount standing to the credit of the contributed surplus account of the Company.

## 10. Trade and bills receivables

| | **2019**<br>***US$'000*** | 2018<br>*US$'000* |
|---|---|---|
| Trade receivables | **24,487** | 18,347 |
| Less: allowance for expected credit loss on trade receivables, net | **(126)** | (91) |
| Trade receivables, net | **24,361** | 18,256 |
| Bills receivables | **1,335** | 751 |
| | **25,696** | 19,007 |

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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Some of the trade receivables that were not impaired are past due as at the reporting date. Ageing analysis of trade receivables not impaired is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Neither past due nor impaired | **15,317** | 10,862 |
| 1–30 days past due | **4,351** | 3,944 |
| 31–90 days past due | **2,408** | 3,114 |
| 91–120 days past due | **27** | 112 |
| More than 120 days past due | **2,258** | 224 |
| | **24,361** | 18,256 |

The movements in allowances for expected credit loss ("**ECL**") on trade receivables are as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| At 1 January | **91** | — |
| Written off of trade receivables | **(76)** | — |
| Allowances for expected credit loss recognised to the consolidated profit or loss | **111** | 91 |
| At 31 December | **126** | 91 |

The above provision for net allowance for ECL on trade receivables included allowances by using a provision matrix and individually impaired trade receivables. The individually impaired receivables related to customers that were in financial difficulties and all receivables are not expected to be recovered. During the year ended 31 December 2019, the Group has been informed that those customers are under liquidation and unable to repay the trade receivables.

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

| | 2019 | 2018 |
|---|---|---|
| | *US$'000* | *US$'000* |
| 1–30 days | **9,364** | 6,780 |
| 31–90 days | **9,540** | 6,926 |
| 91–120 days | **2,161** | 2,600 |
| Over 120 days | **3,296** | 1,950 |
| | **24,361** | 18,256 |

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

| | 2019 | 2018 |
|---|---|---|
| | *US$'000* | *US$'000* |
| 1–30 days | **411** | 549 |
| 31–90 days | **700** | 202 |
| 91–120 days | **41** | — |
| Over 120 days | **183** | — |
| | **1,335** | 751 |

As at 31 December 2019, all bills receivables were neither past due nor impaired (2018: Nil).

## 11. Trade and bills payables

| | 2019 | 2018 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Trade payables | **10,115** | 6,569 |
| Bills payables | **13,096** | 10,318 |
| | **23,211** | 16,887 |

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

| | 2019 | 2018 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| 1–30 days | **8,256** | 3,798 |
| 31–90 days | **1,843** | 2,580 |
| 91–120 days | **2** | 127 |
| Over 120 days | **14** | 64 |
| | **10,115** | 6,569 |

At 31 December 2018, all bills payables were secured by an assignment over the life insurance policy deposits, pledged bank deposits and an unlimited personal guarantee executed by a director of the Company, Mr. Lam Keung. The guarantee released upon listing on 16 July 2019. At 31 December 2019, all bills payables were secured by an assignment over the life insurance policy deposits and pledge bank deposits.

## 12. Share capital

| | Number of shares in issue | Share capital |
|---|---|---|
| | ***'000*** | *US$'000* |
| At 1 January 2018 and 31 December 2018 *(note (i))* | **100** | —* |
| Capitalisation issue *(note (ii))* | **599,900** | 774 |
| Issuance of shares by initial public offering *(note (iii))* | **200,000** | 258 |
| At 31 December 2019 | **800,000** | 1,032 |

* Item with value below US$1,000

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.

*Notes:*

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

(ii) Capitalisation issue

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 of the shares of the Company on the Stock Exchange, our Directors are authorised to capitalise a sum of HK$5,999,000 (equivalent to approximately US$774,000) 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..

(iii) Issuance of shares by initial public offering

On 16 July 2019, 200,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$0.65 each upon the listing of the shares of the Company on the Stock Exchange. The proceeds of HK$2,000,000 (equivalent to approximately US$258,000), representing the par value, were credited to the Company's share capital. The remaining proceeds, net of share issuance expenses, of approximately HK$105,142,000 (equivalent to approximately US$13,567,000) were credited to the share premium account.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2019, total revenue increased by 50.8% to US$101.5 million. The growth was mainly driven by the sales increase of the Group's solutions, in particular applications in the mobile devices & smart charging.

### Gross Profit

Gross profit for the year ended 31 December 2019 increased by 22% year-on-year to US$11.5 million, which was mainly due to the increase in revenue resulting from sales growth in product solutions, in particular applications in the mobile devices & smart charging & sensor & automation. Gross profit margin decreased by 19.1% to approximately 11.3%.

### Other Income

The Group's other income mainly included bank interest income. For the year ended 31 December 2019, other income increased by 80.9% to US$161,000.

### Selling and Distribution Expenses

Selling and distribution expenses mainly consist of salaries and benefits for staff, transportation costs, travelling expenses, office utility expenses, business entertainment and marketing expenses and depreciation costs. During the Year, the Group's selling and distribution expenses amounted to US$1.7 million, an increase of 11.6% or US$1.5 million when compared with 2018, mainly due to postages & couriers expenses.

### General and Administrative Expenses

General and administrative expenses mainly consist of administration expenses including salaries and benefits for the management, administrative and financial personnel, administrative costs and depreciation expenses relating to property, plant and equipment used for administrative purposes.

During the Year, general & administrative expenses amounted to US$2.5 million, representing an increase of 31.7% year-on-year. Such increase was mainly incurred in the business expansion.

### Finance Costs

During the Year, finance costs amounted to US$1.0 million, representing an increase of 18.9% when compared with 2018. The increase was mainly due to the increase in trade financing to support business growth.

### Income Tax Expense

During the Year, income tax expense was US$1.0 million, a growth of 11.5% year-on-year which is in line with the business growth.

### Profit for the Year

As a result of the above factors, the Group's profit for the Year decreased by 3.8% from US$2.6 million recorded for the year ended 31 December 2018 to US$2.5 million for the year ended 31 December 2019. Without considering one-off Listing expenses, the Group's profit for the Year increased by 25.7% when compared with last year. The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2019, but represents an extract from the consolidated financial statements for the year ended 31 December 2019 which have been audited by the auditor of the Company, Moore Stephens CPA Limited ("Moore Hong Kong") in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The financial information has been reviewed by the Audit Committee and approved by the Board.

## LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group maintained a satisfactory liquidity position supporting business growth. As at 31 December 2019, the Group had cash and cash equivalents of US$6.3 million (31 December 2018: US$2.9 million).

The Group recorded net current assets of US$27.5 million (31 December 2018: US$12.1 million).

As at 31 December 2019, the gearing ratio of the Group was 41.6% (31 December 2018: 55.5%), which represents net debt divided by the total equity plus net debt. Net debt includes interest bearing bank and other borrowings, trade payables, other payables and accruals, less cash and cash equivalents and pledged deposits.

The Group increased its bank loans mainly for securing capital for its business development. At as 31 December 2019, the Group had bank loans amounting to US$1.4 million.

The annual interest charge of the bank and other borrowings during the Year ranged from 3.6% to 5.0% (2018: 3.7% to 5.0%).

## USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing of HK$67.8 million (equivalent to approximately US$8.7 million), after deducting the underwriting fees, commissions and expenses payable by us, have been and will be utilized in the same manner, proportion and the expected timeframe as set out in the prospectus of the Company dated 29 June 2019 (the "**Prospectus**") under the section headed "Future Plans and Use of Proceeds". The table below sets out the planned applications of the net proceeds and actual usage up to 31 December 2019:

| Use of proceeds | Approximate percentage of total amount | Actual amount of Net Proceeds *(HK$'000)* | Actual usage up to 31 December 2019 *(HK$'000)* | Unutilised amount as at 31 December 2019 *(HK$'000)* | Expected timeline |
|---|---|---|---|---|---|
| (i) Financing the revolving purchase payment for our purchases of ICs imposed under the ship-and-debit arrangement *(Note)* | 84.1% | 57,020 | 57,020 | — | — |
| (ii) Enhancing our design and R&D capabilities through purchasing testing and R&D equipment | 3.7% | 2,509 | 167 | 2,342 | Remainder to be utilized by 31 March 2021 |
| (iii) Recruiting and maintaining high calibre talent | 9.9% | 6,712 | 421 | 6,291 | Remainder to be utilized by 31 March 2021 |
| (iv) Working capital | 2.3% | 1,559 | 522 | 1,037 | Remainder to be utilized by 31 March 2021 |
| | 100% | 67,800 | 58,130 | 9,670 | |

## CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 116 employees (31 December 2018: 99 employees). The Group's labour costs (including salaries, bonuses, pension and welfare but excluding directors' and co-chief executives' remuneration) were US$2.1 million, accounting for 2.1% of its revenue in the Year.

The remunerations of the employees are commensurate with their performance, skills, knowledge, experience and the market trend. Employee benefits provided by the Group include medical insurance scheme and mandatory provident fund. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustments that accommodate the pay levels in the industry. In addition to basic salaries, the employees may be offered with discretionary bonuses and cash awards based on individual performances.

As at 31 December 2019, the Group had not issued or allotted any awarded shares.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company complies or intends to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules, save for Code A.2.1 which requires that the roles of chairman and chief executive officer be separated and performed by different individuals. Mr. Lam 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-calibre 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.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code in each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports after the Listing.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted written guidelines (the "**Written Guidelines**") on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code for securities transactions by the Directors.

As the Shares were listed on the Stock Exchange on 16 July 2019, the Model Code and Written Guidelines were not applicable to the Company during the period from 1 January 2019 to 15 July 2019.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines throughout the period from the Listing Date to the date of this announcement. No incident of non-compliance of the Written Guidelines by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company will make further announcement on the date of annual general meeting and closure of register of members as soon as practicable.

## FINAL DIVIDEND BY WAY OF BONUS ISSUE OF SHARES

The Board proposed a final dividend by way of the Bonus Issue on the basis of one Bonus Share for every ten existing Shares held by the Shareholders, subject to the approval of the Shareholders at the forthcoming AGM. The resolution will be proposed at the forthcoming AGM. Further information of the issue of the bonus shares will be published by the Company and such information will also be set out in a circular for dispatch by the Company to the Shareholders in due course. The Bonus Shares will be credited as fully paid by way of capitalisation of an amount standing to the credit of the contributed surplus account of the Company.

The Bonus Issue is subject to approval by the Shareholders at the AGM of the Company and the Stock Exchange granting the listing of, and permission to deal in, the Bonus Shares. The Bonus Shares will rank pari passu in all respects with the existing Shares except that they will not rank for the Bonus Issue.

A circular containing, amongst other things, further information on the Bonus Issue, and, where applicable, explanation for the exclusion of overseas Shareholders, together with a notice convening the 2020 AGM, will be dispatched to the Shareholders as soon as practicable.

## SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of the total issued capital of an issuer must be held by the public at any time. Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this announcement, the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares being held by the public.

## SCOPE OF WORK OF INDEPENDENT AUDITOR

The figures in respect of the Company's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes to the consolidated financial statements thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Company's independent auditor, Moore Hong Kong, Certified Public Accountants, to the amounts as set out in the Company's audited financial statements for the year ended 31 December 2019 and the amounts were found to be in agreement. The work performed by Moore Hong Kong in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's independent auditor.

## AUDIT COMMITTEE

The Audit Committee comprises all the three independent non-executive Directors, namely Mr. Dan Kun Lei, Raymond, Mr. Wong Kwun Ho and Mr. Lai Man Shun. The Audit Committee has reviewed together with the management and external auditor the accounting principles and policies adopted by the Group, the annual results and the consolidated financial statements for the year ended 31 December 2019. The Audit Committee considered that the annual results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.conteltechnology.com). The annual report for the year ended 31 December 2019 will be dispatched to the shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

## EVENTS AFTER THE REPORTING PERIOD

The Group did not have material subsequent events.

## APPOINTMENT OF EXECUTIVE DIRECTOR

Ms. Cheng Yu Pik has been appointed as an executive director with effect from 27 March 2020.

The board of directors (the "**Board**") of Contel Technology Company Limited (the "**Company**" together with its subsidiaries, the "**Group**") is pleased to announce that Ms. Cheng Yu Pik ("**Ms. Cheng**"), has been appointed as an executive director of the Company with effect from 27 March 2020.

Ms. Cheng, aged 39, she has over 14 years of experience in the semiconductor industry. She joined the Group in July 2009 and was appointed as the head of operations of our Group in March 2018. Ms. Cheng is responsible for overseeing the business and administrative functions of our Group, including collaborating with other members of the senior management and staff members to formulate and implement policies and procedures; interfacing cross-functionally at all levels within our Group as well as with external resources (such as logistic companies, governmental agencies); and providing routine reports to the Board regarding operations, business performance and human resources.

Ms. Cheng joined our Group in July 2009. Prior to joining our Group, she worked at Synergy International Technology Limited from August 2003 to June 2009 and her last position was senior customer service coordinator where she was responsible for coordinating with suppliers and handling enquiries. Ms. Cheng worked as a general clerk at Kingdan Development Limited from September 2000 to July 2003, where she was responsible for dealing with suppliers, clients and customs declarations.

Ms. Cheng obtained her matriculation certificate from Caritas Bianchi College of Careers, Hong Kong, in October 2000.

There is no service contract between the Company and Ms. Cheng. The term of appointment of Ms. Cheng is subject to retirement by rotation and re-election in accordance with the Bye-Laws of the Company and Code Provision A.4.2 of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Ms. Cheng shall retire at the first general meeting of the Company after her appointment but will then be eligible for re-election. Ms. Cheng is entitled to a monthly director's emolument of HK$10,000 with discretionary bonus which is determined by the Board with reference to her duties and responsibilities with the Company, the Company's performance and the prevailing market situation.

Save as disclosed above, as at the date of this announcement, Ms. Cheng (i) does not hold any share options granted by the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong); (ii) does not have any relationships with any other directors, senior management, substantial or controlling shareholders (as defined in the Listing Rules) of the Company; and (iii) does not hold any directorship in any other listed public company in the three years preceding the date of this announcement.

To the best knowledge of the Board, save as disclosed above, there are no other matters relating to the appointment of Ms. Cheng as an executive Director that need to be brought to the attention of the shareholders nor any information required to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

The Board would like to extend a warm welcome to Ms. Cheng for joining the Board.

By order of the board of directors of
**Contel Technology Company Limited**
**Lam Keung**
*Chairman and Executive Director*

Hong Kong, 27 March 2020

*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.*