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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 2020

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 2020 (the “**Period**”), together with comparative figures for the six months ended 30 June 2019 (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 2020	30 June 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Revenue	62,961	36,691
Gross profit	4,794	3,830
Profit for the period	1,654	406
Profit for the period (excluding listing expenses)	1,654	1,560

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	<i>Notes</i>	Six months ended	
		30 June 2020	30 June 2019
		<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	5	62,961	36,691
Cost of sales		(58,167)	(32,861)
Gross profit		4,794	3,830
Other income	5	68	162
Selling and distribution expenses		(715)	(708)
General and administrative expenses		(1,430)	(949)
Provision for allowance for expected credit loss on trade receivables		(16)	—
Listing expenses		—	(1,154)
Finance costs	6	(518)	(525)
Profit before income tax	7	2,183	656
Income tax expense	8	(529)	(250)
Profit for the period attributable to shareholders of the Company		<u>1,654</u>	<u>406</u>
		<i>US cents</i>	<i>US cents</i>
Earnings per share attributable to shareholders of the Company	9		
Basic and diluted		<u>0.21</u>	<u>0.067</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended	
	30 June 2020	30 June 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	<u>1,654</u>	<u>406</u>
Other comprehensive (expense)/income		
<i>Item that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences arising on translating foreign operations	<u>(13)</u>	<u>1</u>
Other comprehensive (expense)/income for the period attributable to the owners of the Company	<u>(13)</u>	<u>1</u>
Total comprehensive income for the period	<u><u>1,641</u></u>	<u><u>407</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	<i>Notes</i>	30 June 2020 US\$'000 (Unaudited)	31 December 2019 US\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,209	809
Intangible assets		52	89
Goodwill		261	261
Life insurance policy deposits	<i>10</i>	1,415	1,403
		<u>2,937</u>	<u>2,562</u>
Current assets			
Inventories		11,348	12,909
Trade and bills receivables	<i>11</i>	29,478	25,696
Prepayments, deposits and other receivables		11,446	9,794
Amounts due from related parties	<i>16</i>	12	12
Pledged bank deposits	<i>12</i>	1,244	1,229
Cash and cash equivalents	<i>12</i>	7,474	6,263
		<u>61,002</u>	<u>55,903</u>
Current liabilities			
Trade and bills payables	<i>13</i>	27,333	23,211
Accruals, receipts in advance and other payables		2,466	2,050
Lease liabilities		249	382
Bank borrowings	<i>14</i>	1,361	1,401
Tax payable		737	1,353
		<u>32,146</u>	<u>28,397</u>
Net current assets		<u>28,856</u>	<u>27,506</u>
Total assets less current liabilities		<u>31,793</u>	<u>30,068</u>
Non-current liabilities			
Lease liabilities		363	279
NET ASSETS		<u>31,430</u>	<u>29,789</u>
EQUITY			
Share capital	<i>15</i>	1,032	1,032
Reserves		30,398	28,757
TOTAL EQUITY		<u>31,430</u>	<u>29,789</u>

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Equity attributable to owners of the Company							
	Share capital US\$'000	Share Premium 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 2020 (Audited)	<u>1,032</u>	<u>12,793</u>	<u>10,076</u>	<u>(7,021)</u>	<u>582</u>	<u>(59)</u>	<u>12,386</u>	<u>29,789</u>
Profit for the period	—	—	—	—	—	—	1,654	1,654
Foreign currency translation differences for foreign operations	—	—	—	—	—	(13)	—	(13)
Total comprehensive income for the period	—	—	—	—	—	(13)	1,654	1,641
At 30 June 2020 (Unaudited)	<u><u>1,032</u></u>	<u><u>12,793</u></u>	<u><u>10,076</u></u>	<u><u>(7,021)</u></u>	<u><u>582</u></u>	<u><u>(72)</u></u>	<u><u>14,040</u></u>	<u><u>31,430</u></u>
At 1 January 2019 (Audited)	—	—	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)	<u><u>—[#]</u></u>	<u><u>—</u></u>	<u><u>10,076</u></u>	<u><u>(7,021)</u></u>	<u><u>449</u></u>	<u><u>(37)</u></u>	<u><u>10,412</u></u>	<u><u>13,879</u></u>

[#] 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.

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 28 August 2020.

2. Basis of Preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2020 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 (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2019, except for the adoption of the revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations).

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

CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or amendment that is not yet effective for the current accounting period.

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 2019.

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 2020	30 June 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Revenue recognised at a point in time		
Hong Kong	41,226	21,964
The PRC	21,735	14,727
	<u>62,961</u>	<u>36,691</u>
	30 June 2020	31 December
	<i>US\$'000</i>	2019
	(Unaudited)	(Audited)
Non-current assets		
Hong Kong	980	344
The PRC	542	815
	<u>1,522</u>	<u>1,159</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 2020	30 June 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
<i>Revenue from contract with customers within the scope of HKFRS 15, types of goods or services</i>		
Sales of ICs	62,961	36,691
<i>Other income</i>		
Bank interest income	5	6
Exchange gain, net	—	133
Government grant	31	—
Others	32	23
	68	162

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 2020	30 June 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Interest on lease liabilities	12	22
Interest on bills payables	438	439
Interest on discounted bills	4	50
Interest on short-term bank loans	64	14
	<u>518</u>	<u>525</u>

7. Profit Before Income Tax

	Six months ended	
	30 June 2020	30 June 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Amortisation of intangible assets	36	36
Cost of inventories recognised as expenses	58,167	32,861
Depreciation of property, plant and equipment	262	235
Employee benefit expenses (including directors' remuneration)		
Salaries and allowances	1,165	964
Pension scheme contributions		
— Defined contribution plan	89	161
Exchange loss/(gain), net	161	(133)
	<u>161</u>	<u>(133)</u>

8. Income Tax Expense

	Six months ended	
	30 June 2020	30 June 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Current tax expenses		
— Hong Kong Profits Tax	347	229
— PRC Corporate Income Tax	182	21
	<u>529</u>	<u>250</u>

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.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) 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 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 2020	30 June 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Profit attributable to shareholders of the Company	<u>1,654</u>	<u>406</u>
Weighted average number of ordinary shares in issue during the period	<u>800,000,000</u>	<u>600,000,000</u>

The calculation of the basic earnings per share is based on the profit attributable to shareholders of the Company for the six months ended 30 June 2020 of US\$1,654,000 (six months ended 30 June 2019: US\$406,000) and the weighted average of 800,000,000 ordinary shares (six months ended 30 June 2019: 600,000,000 ordinary shares, assuming the capitalisation issue of shares had been completed on 1 January 2019) as further detailed in note 25 to Group’s annual consolidated financial statements for the year ended 31 December 2019).

There were no dilutive potential shares outstanding during the six months ended 30 June 2020 (as at 31 December 2019: Nil).

10. Life Insurance Policy Deposits

In prior years, the Group entered into life insurance policies (the “**Policy**”) to insure two of the directors of the Company, Mr. Lam Keung and Ms. Cheng Yu Pik. Under the Policy, the beneficiary and policy holder is the Group and the total insured sum was US\$6,737,000 as at 31 December 2019 and 30 June 2020. At inception of the Policy, the Group paid upfront payments of US\$524,000 during the year ended 31 December 2019. 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 carrying amount of upfront payments will be adjusted through consolidated profit or loss through the expected life of the Policy of 37 years to 44 years. As at 31 December 2019 and 30 June 2020, the Policy was pledged to a bank to secure bills payables (note 13) and bank borrowings (note 14) granted to the Group.

11. Trade and Bills Receivables

	30 June 2020 US\$'000 (Unaudited)	31 December 2019 US\$'000 (Audited)
Trade receivables	29,420	24,487
Less: allowance for expected credit loss on trade receivables, net	(142)	(126)
Trade receivables, net	29,278	24,361
Bills receivables	200	1,335
	<u>29,478</u>	<u>25,696</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 2020	31 December 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
1–30 days	13,379	9,364
31–90 days	12,204	9,540
91–120 days	1,705	2,161
Over 120 days	1,990	3,296
	29,278	24,361

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

	30 June 2020	31 December 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
1–30 days	—	411
31–90 days	161	700
91–120 days	34	41
Over 120 days	5	183
	200	1,335

12. Pledged Bank Deposits and Cash and Cash Equivalents

At 30 June 2020, the cash and bank balances of the Group denominated in RMB amounted to approximately US\$1,054,000 (31 December 2019: US\$214,000). 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 2020, the Group's pledged bank deposits of US\$1,244,000 (31 December 2019: US\$1,229,000) pledged to secure the bills payables (note 13).

13. Trade and Bills Payables

	30 June 2020 US\$'000 (Unaudited)	31 December 2019 US\$'000 (Audited)
Trade payables	7,614	10,115
Bills payables	<u>19,719</u>	<u>13,096</u>
	<u>27,333</u>	<u>23,211</u>

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

	30 June 2020 US\$'000 (Unaudited)	31 December 2019 US\$'000 (Audited)
1–30 days	6,040	8,256
31–90 days	1,555	1,843
91–120 days	4	2
Over 120 days	<u>15</u>	<u>14</u>
	<u>7,614</u>	<u>10,115</u>

At 31 December 2019 and 30 June 2020, all bills payables were secured by an assignment over the Policy (note 10) and pledged bank deposits (note 12).

14. Bank Borrowings

	30 June 2020 US\$'000 (Unaudited)	31 December 2019 US\$'000 (Audited)
Current		
Bank borrowings — secured (<i>note (a)</i>)	1,182	390
Discounted bills with recourse (<i>note (b)</i>)	179	1,011
	<u>1,361</u>	<u>1,401</u>

Notes:

- (a) At 30 June 2020, bank borrowings with carrying amount of approximately US\$1,182,000 (31 December 2019: US\$390,000) were secured by an assignment over the Policy (note 10) and pledged bank deposits. Interest was charged in the range from 4.2% to 5.0% per annum as at 31 December 2019 and 30 June 2020, respectively.
- (b) At 30 June 2020, all borrowings from discounting of bills with recourse were secured by certain bills receivables of the Group with carrying amount of approximately US\$179,000 (31 December 2019: US\$1,011,000), respectively (note 11). Interest is charged in the range from 3.6% to 4.5% per annum during the periods.

15. Share Capital

	Number of shares		Share capital	
	30 June 2020 '000 (Unaudited)	31 December 2019 '000 (Audited)	30 June 2020 US\$'000 (Unaudited)	31 December 2019 US\$'000 (Audited)
Issued and fully paid	<u>800,000</u>	<u>800,000</u>	<u>1,032</u>	<u>1,032</u>

16. Related Party Disclosures

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

(a) Balances with related parties

		30 June 2020	31 December 2019
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Audited)
Balances at the end of the period/year			
Advances to related companies	<i>(i), (ii)</i>	<u>12</u>	<u>12</u>

Notes:

- (i) P. Grand (BVI) Ltd. and Kingtech (BVI) Ltd. are the related companies controlled by Mr. Lam Keung and Feng Tao, the spouse of Mr. Qing, respectively.
- (ii) Amounts due were unsecured, non-interest bearing and repayable on demand.

(b) Compensation of key management personnel

	Six months ended	
	30 June 2020	30 June 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Short-term employee benefits	100	122
Pension scheme contributions	<u>4</u>	<u>12</u>
Total compensation paid to key management personnel	<u>104</u>	<u>134</u>

17. 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 28 August 2020.

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 2020 and the six months ended 30 June 2019 is set forth below:

	For the six months ended			
	30 June 2020		30 June 2019	
	<i>USD'000</i>	<i>%</i>	<i>USD'000</i>	<i>%</i>
Mobile devices and smart charging	50,194	79.7	24,091	65.7
Motor control	7,043	11.2	5,652	15.4
RF power	1,575	2.5	2,772	7.5
LED lighting	1,134	1.8	2,127	5.8
Sensors and automation	3,015	4.8	2,049	5.6
Total	<u>62,961</u>	<u>100.0</u>	<u>36,691</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 2020		30 June 2019	
	<i>USD'000</i>	<i>%</i>	<i>USD'000</i>	<i>%</i>
Mobile devices and smart charging	3,530	73.6	1,922	50.2
Motor control	709	14.8	678	17.7
RF power	107	2.2	810	21.1
LED lighting	75	1.6	211	5.5
Sensors and automation	373	7.8	209	5.5
Total	<u>4,794</u>	<u>100.0</u>	<u>3,830</u>	<u>100.0</u>

3. FINANCIAL REVIEW

Revenue

Revenue for the Period is approximately US\$62,961,000 as compared to approximately US\$36,691,000 for the Preceding Period, which represents an increase of approximately 71.6%. 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\$58,167,000 as compared to approximately US\$32,861,000 for the Preceding Period, which represents an increase of approximately 77.0%. 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\$4,794,000, as compared to US\$3,830,000 for the Preceding Period, an increase of approximately US\$964,000 is primary attributable to the fact that we generated higher gross profit amount and lower gross profit margin of approximately 7.0% (Preceding Period: 8.0%) 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 7.6% and 10.4% for the Period and the Preceding Period, respectively.

Selling and distribution expenses

For the Period, the Group recorded selling and distribution expenses of US\$715,000, as compared to US\$708,000 for the Preceding Period, an increase of approximately US\$7,000 is noted. The Group recorded the size of sales team remained stable, lower of travelling expenses but higher of postage and courier cost.

General and administration expenses

For the Period, the Group recorded general and administration expenses of US\$1,430,000, as compared to US\$949,000 for the Preceding Period, an increase of approximately US\$481,000 is primary attributable to the fact that higher of staff cost of approximately US\$1,254,000 (Preceding Period: US\$1,125,000), depreciation of approximately US\$262,000 (Preceding Period: US\$235,000) and exchange loss of approximately US\$161,000 (Preceding Period: exchange gain of approximately US\$133,000). General and administration expenses accounted for 2.3% and 2.6% of revenue for the Period and the Preceding Period, respectively.

Finance costs

For the Period, the Group recorded finance costs of approximately US\$518,000, as compared to US\$525,000 for the Preceding Period, a decrease of approximately US\$7,000 is noted. For the Period, finance costs accounted for approximately 0.8% of the total revenue (Preceding Period: 1.4%). 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\$2,183,000 and US\$656,000 for the Period and the Preceding Period respectively.

The Group recorded profit before income tax (excluding listing expenses) of approximately US\$2,183,000 and US\$1,810,000 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 China Enterprise Income Tax.

The effective tax rate of the Group is approximately 24.2% and 38.1% for the Period and the Preceding Period respectively. The effective tax rate of the Group excluding listing expenses is approximately 24.2% and 13.8% respectively.

Profit for the period

The Group recorded profit for the period attributable to shareholders of the Company of approximately US\$1,654,000 and US\$406,000 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\$1,654,000 and US\$1,560,000 for the Period and the Preceding Period respectively.

Indebtedness

Bank borrowings

As at 30 June 2020, our bank loans of approximately US\$1,361,000 (31 December 2019: US\$1,401,000), were secured by (i) assignments of over our life insurance policies; and (ii) pledged bank deposits.

Lease liabilities

As at 30 June 2020, the Group had current and non-current lease liabilities of approximately US\$612,000 (31 December 2019: US\$661,000) which represented the outstanding lease liabilities in respect of the leases of our office and warehouses.

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 2020, the total number of employees of the Group (excluding Directors) was approximately 101 (31 December 2019: approximately 105). 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 2020 and 31 December 2019, 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, 13 and 14 to the interim condensed consolidated financial statements in this report.

Commitments

At 30 June 2020 and 31 December 2019, the Group had no material capital commitment.

Contingent liabilities

As at 31 December 2019 and 30 June 2020, 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 2020 (Six months ended 30 June 2019: Nil).

Subsequent Events After the Reporting Period

As of the approval date of these interim condensed consolidated financial statements, there is no significant event after the reporting period that needs to be disclosed.

Use of Proceeds from Listing

The shares of the Company was successfully listed on the Main Board of the Stock Exchange on the Listing Date by offering a total of 200,000,000 shares at the offer price of HK\$0.65 per shares. After deducting the underwriting fees, commissions and expenses payable by the Company, the net proceeds from the Listing of HK\$67.8 million (equivalent to approximately US\$8.7 million), have been and will be utilised 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 30 June 2020:

Use of proceeds	Approximate percentage of total amount	Actual amount of net proceeds (HK\$'000)	Actual usage up to 30 June 2020 (HK\$'000)	Unutilised amount as at 30 June 2020 (HK\$'000)	Expected timeline
(i) Financing the revolving purchase payment for our purchases of ICs imposed under the ship-and-debit arrangement (<i>Note</i>)	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	2,509	—	—
(iii) Recruiting and maintaining high calibre talent	9.9%	6,712	1,131	5,581	Remainder to be utilised by 31 March 2021
(iv) Working capital	2.3%	1,559	783	776	Remainder to be utilised by 31 March 2021
	<u>100%</u>	<u>67,800</u>	<u>61,443</u>	<u>6,357</u>	

The Company has already utilised, and will continue to utilise, the net proceeds from the Global Offering for the purposes as mentioned in the previous paragraph.

4. FUTURE PROSPECT

Under the influence of COVID-19 pandemic, new ways of working, studying and communicating through video conferencing and other online tools have been adopted by people around the world to cope with the pandemic during the past few months. Such trends are expected to have a lasting impact on the existing internet and mobile related products and services, therefore increasing demands for semiconductors that enable servers, connectivity and cloud usage.

The current sources of tech demand could be broken down into three main categories: 1) computers and consumer electronics, 2) mobile phones, 3) digitalisation, automation and other new technology areas. Being one of its post-pandemic economic recovery strategies, the PRC government has “new infrastructure” construction as a key policy under the rapid development of new technologies such as big data, cloud computing and the internet-of-things (IoT). The country will develop next-generation information networks and expand 5G applications while more charging facilities will be built to promote wider use of new energy vehicles. 5G development will bring a new round of market opportunities for electronic products.

In view of the above industry trends, the Group will continue its diversification strategy and take measures to expand its business in the telecom, automotive and industrial markets, in addition to consumer electronics market. The Group will also evaluate potential acquisitions and investment opportunities in order to seize more promising business opportunities to facilitate further revenue and profit growth in the future as well as better returns and long-term value to the shareholders of the Company. In the future, we are committed to continuously expand and strengthen the Group’s existing business segments, combining with market changes and our own comparative advantages to cover more new markets and new areas.

The Group will continue implementing stringent financial management so as to support greater growth by investing in its businesses. To that end, it will align its overall cost structure, capital investments and other expenditures with expected revenue, development plans and market conditions.

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.

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 2020 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
Au Ka Man Silkie
Company Secretary

Hong Kong,
28 August, 2020

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