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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2022 was approximately US\$121.7 million, representing a decrease of 45.2% when compared with approximately US\$222.0 million for the year ended 31 December 2021.
- The Group incurred a net loss of approximately US\$1.6 million for the year ended 31 December 2022 (2021: Profit for the year of approximately US\$2.2 million).
- Basic loss per share for the year ended 31 December 2022 was HK1.51 cents (2021: basic earnings per share was HK2.08 cents (restated)).
- The Board does not recommend payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

ANNUAL RESULTS

The Board of Directors (the “**Board**”) of Contel Technology Company Limited (the “**Company**”) hereby announces the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2022 (the “**Year**”) together with selected explanatory notes and the relevant comparative figures for 31 December 2021 which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) as below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Notes</i>	2022 <i>US\$’000</i>	2021 <i>US\$’000</i>
Revenue	4	121,710	222,040
Cost of sales		(113,314)	(209,452)
Gross profit		8,396	12,588
Other income	4	229	246
Selling and distribution expenses		(3,337)	(3,213)
General and administrative expenses		(5,345)	(5,229)
Provision for allowance for expected credit loss on trade receivables	11	(465)	(89)
Finance costs	5	(1,555)	(1,817)
(Loss)/profit before income tax	6	(2,077)	2,486
Income tax credit/(expense)	7	493	(315)
(Loss)/profit for the year attributable to the owners of the Company		(1,584)	2,171
Other comprehensive income/(loss) <i>Item that will not be reclassified subsequently to profit or loss:</i>			
Fair value gain on investment in equity instruments at fair value through other comprehensive income	10	12	121
<i>Item that may be reclassified subsequently to profit or loss:</i> Exchange differences arising on translation of financial statements of foreign operations		(574)	88
Other comprehensive (loss)/income for the year attributable to the owners of the Company		(562)	209
Total comprehensive (loss)/income for the year attributable to the owners of the Company		(2,146)	2,380
		<i>HK cents</i>	<i>HK cents</i> (Restated)
(Loss)/earnings per share attributable to the owners of the Company			
Basic and diluted	8	(1.51)	2.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Notes</i>	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		811	918
Intangible assets		1,831	20
Goodwill		260	286
Life insurance policy deposits		2,671	1,465
Financial assets at fair value through other comprehensive income	10	6,293	6,281
Deferred tax assets		680	89
		<u>12,546</u>	<u>9,059</u>
Current assets			
Inventories		20,062	14,359
Trade and bills receivables	11	24,099	37,635
Prepayments, deposits and other receivables		5,603	6,470
Amounts due from related parties		26	26
Pledged bank deposits		902	1,245
Cash and cash equivalents		2,343	7,670
Tax recoverable		224	736
		<u>53,259</u>	<u>68,141</u>
Current liabilities			
Trade and bills payables	12	18,116	23,288
Accruals, contract liabilities and other payables		1,616	1,654
Lease liabilities		381	251
Bank and other borrowings		11,106	17,147
Tax payable		—	368
		<u>31,219</u>	<u>42,708</u>
Net current assets		<u>22,040</u>	25,433
Total assets less current liabilities		<u>34,586</u>	34,492
Non-current liabilities			
Lease liabilities		108	160
Net assets		<u>34,478</u>	<u>34,332</u>
EQUITY			
Share capital	13	1,417	1,032
Reserves		33,061	33,300
Total equity		<u>34,478</u>	<u>34,332</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

1. Corporate information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 August 2016 under the Companies Law of the Cayman Islands. 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 shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 July 2019.

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 Peoples Republic of China (the “**PRC**”).

The immediate and ultimate holding company of the Company is P. Grand (BVI) Ltd., a company incorporated in the British Virgin Islands (the “**BVI**”). The ultimate controlling parties of the Group are Ms. Feng Tao, Mr. Lam Keung, and Mr. Qing Haodong.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all individual HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations 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 the Stock Exchange.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income (“**FVTOCI**”), which have been measured at fair value as at the end of the reporting period. Certain comparative figures have been reclassified to conform with the current year’s presentation.

The functional currency of the Company is Hong Kong dollars (“**HK\$**”) and the investment holding subsidiary incorporated in the BVI and subsidiaries incorporated 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\$ as the directors of the Company consider that it is more appropriate to adopt US\$ as the Group’s and the Company’s presentation currency. All values are rounded to the nearest thousand except when otherwise indicated.

(a) Application of amendments to HKFRSs

In the preparation of the consolidated financial statements for the year ended 31 December 2022, the Group has applied the following amendments to HKFRSs, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2022:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

In addition, the Group has adopted the Amendments to AG 5 (Revised) — Merger Accounting for Common Control Combination.

The application of the above amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

(b) New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

		Effective for accounting periods beginning on or after
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts and the related Amendments	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in the process of making an assessment of what the impact of these new and amendments to HKFRSs is 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 2023. 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, 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 products and electronic components 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, financial assets at FVTOCI and deferred tax assets) is presented based on the location of assets as follows:

	2022	2021
	<i>US\$'000</i>	<i>US\$'000</i>
Year ended 31 December		
Revenue from contracts with customers within the scope of HKFRS 15 recognised at a point in time		
Hong Kong	85,749	177,464
The PRC	35,961	44,576
	121,710	222,040
At 31 December		
Non-current assets		
Hong Kong	1,622	673
The PRC	1,280	551
	2,902	1,224

Revenue from customers which individually contributed over 10% of the total revenue of the Group during the year is as follows:

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
Customer A	21,289	60,351
Customer B	23,086	27,548
Customer C	N/A*	24,960

* The customer contributed less than 10% of the total revenue for the year.

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

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
Sales of IC products and electronic components:-		
Mobile devices and smart charging	67,947	163,850
Motor control	40,149	35,236
Sensor and automation	9,670	15,896
LED lighting	2,633	4,674
RF power	1,311	2,384
	121,710	222,040

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 products and electronic components 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:

	2022	2021
	<i>US\$'000</i>	<i>US\$'000</i>
<i>Revenue from contract with customers within the scope of HKFRS 15, types of goods or services</i>		
Sale of ICs products and electronic components	121,710	222,040

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sale of ICs products and electronic components 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.

	2022	2021
	<i>US\$'000</i>	<i>US\$'000</i>
<i>Other income</i>		
Bank interest income	11	2
Exchange gain, net	—	138
Government grants (<i>note (a)</i>)	92	17
Imputed interest income on life insurance policy deposits	74	43
Rent concessions (<i>note (b)</i>)	32	—
Others	20	46
	229	246

Notes:

- (a) For the years ended 31 December 2022 and 2021, government grants included the subsidy granted by the PRC government for encouragement to local business activities. The amount also included the government grants which had been received in respect of subsidy for staff costs according to the Employment Support Scheme (“ESS”), which was launched by The Government of the Hong Kong Special Administrative Region, which aimed to provide time limited financial support to the Group for the period from May to July 2022 to retain employees who might otherwise redundant. There was no ESS granted during the year ended 31 December 2021. There are no unfulfilled conditions or other contingencies attached to these subsidies at the end of the reporting period.

- (b) The amount represented rent concessions from the landlord in relation to the COVID-19 pandemic in April to May 2022 (2021: Nil). The concession did not constitute to the lease modification by applying the practical expedient that met the conditions in paragraph 46B of HKFRS 16.

5. Finance costs

	2022	2021
	<i>US\$'000</i>	<i>US\$'000</i>
Interest on bills payables	739	491
Interest on discounted bills	40	10
Interest on lease liabilities	24	19
Imputed interest on promissory note	—	286
Interest on bank borrowings	337	474
Interest on other borrowings	415	537
	1,555	1,817

6. (Loss)/profit before income tax

(Loss)/profit before income tax is arrived at after charging:

	2022	2021
	<i>US\$'000</i>	<i>US\$'000</i>
Auditor's remuneration		
— Audit services	114	105
— Non-audit services	31	22
Amortisation of intangible assets	64	13
Amortisation of life insurance policy deposits	106	22
Cost of inventories recognised as expenses	112,111	208,205
Depreciation of property, plant and equipment	582	634
Employee benefit expenses (including directors' remuneration) (<i>note (i)</i>)		
— Salaries, allowances and bonus	4,297	5,194
— Pension scheme contributions — defined contribution plan (<i>note (ii)</i>)	482	555
Expenses relating to the short-term leases	13	12
Loss on early redemption of promissory notes	—	36
Write-off of inventory included in cost of sales	27	72

Notes:

- (i) During the year ended 31 December 2022, employee benefit expenses (including directors' remuneration) of approximately US\$2,192,000 and US\$2,587,000 were included in selling and distribution expenses and general and administrative expenses respectively (2021: US\$752,000, US\$2,064,000 and US\$2,933,000 were included in cost of sales, selling and distribution expenses and general and administrative expenses respectively).
- (ii) As at 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years (2021: Nil).

7. Income tax (credit)/expense

	2022 US\$'000	2021 US\$'000
Current tax — Hong Kong Profits Tax		
— provision for the year	—	402
— over-provision in prior years	(8)	(45)
Current tax — PRC Corporate Income Tax		
— provision for the year	105	119
— under/(over)-provision in prior years	4	(128)
	<u>101</u>	<u>348</u>
Deferred tax	(594)	(33)
Income tax (credit)/expense	<u>(493)</u>	<u>315</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdiction in which members of the Group are domiciled and operated.

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.

Under the two-tiered profits tax rates regime in Hong Kong Profits Tax, the first HK\$2,000,000 (equivalent to approximately US\$258,000) of profits of the qualifying group entity will be taxed at 8.25% (2021: 8.25%), and profits above HK\$2,000,000 (equivalent to approximately US\$258,000) will be taxed at 16.5% (2021: 16.5%). The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% (2021: 16.5%) during the year.

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% (2021: 8.25%) of the first HK\$2,000,000 (equivalent to approximately US\$258,000) of the estimated assessable profits and at 16.5% (2021: 16.5%) on the estimated profits above HK\$2,000,000 (equivalent to approximately US\$258,000), taking into account the tax concession granted by the Government of Hong Kong Special Administrative Region during the year.

The provision for the PRC Corporate Income Tax was based on the statutory rate of 25% (2021: 25%) of the assessable profits of subsidiaries which carried on businesses in the PRC during the year. Pursuant to relevant laws and regulations in the PRC, a PRC subsidiary of the Company is qualified as a small and micro enterprise and its assessable profit was below RMB1,000,000, the PRC subsidiary entitled to the tax effective rate of 2.5% (2021: 2.5%) for the year ended 31 December 2022.

8. (Loss)/earnings per share

The calculation of the basic (loss)/earnings per share attributable to the owners of the Company is based on the following data:

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
(Loss)/profit for the year attributable to the owners of the Company for the purpose of basic (loss)/earnings per share	<u>(1,584)</u>	<u>2,171</u>
	Number of shares	
	2022 <i>'000</i>	2021 <i>'000</i> (Restated)
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<u>811,688</u>	<u>808,421</u>

The weighted average number of ordinary shares used to calculate the basic (loss)/earnings per share for both years have been adjusted to reflect the Rights Issue (as defined in note 13) during the year ended 31 December 2022. Accordingly, the basic earnings per share for the year ended 31 December 2021 are restated.

Diluted (loss)/earnings per share were the same as the basic (loss)/earnings per share as there were no dilutive potential shares outstanding during the years ended 31 December 2022 and 2021.

9. Dividends

No dividend was paid or proposed for ordinary shareholders of the Company during the year, nor has any dividend been proposed since the end of the reporting period (2021: Nil).

10. Financial assets at fair value through other comprehensive income

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
Financial assets at FVTOCI		
— Unlisted equity securities in the BVI, Cosmic Paramount Limited (“Cosmic”)	<u>6,293</u>	<u>6,281</u>

The movements of unlisted equity securities are as follows:

	<i>US\$'000</i>
At 1 January 2021	6,160
Change in FVTOCI	<u>121</u>
At 31 December 2021 and 1 January 2022	6,281
Change in FVTOCI	<u>12</u>
At 31 December 2022	<u>6,293</u>

In 2020, the Group entered into (i) the conditional sale and purchase agreement together with the supplemental agreement with the independent vendor in relation to the acquisition of 781 shares of Cosmic (the “**Acquisition**”) and (ii) conditional subscription agreement together with the supplemental agreement to subscribe 148 shares of Cosmic (the “**Subscription**”). After the completion of the Acquisition and the Subscription on 31 December 2020, the Group held in aggregate 9.07% equity interest in Cosmic.

The considerations of the Acquisition and the Subscription were settled by the issuance of promissory notes with an aggregate principal amount of approximately HK\$49,955,000 (equivalent to approximately US\$6,446,000) at the fair value of approximately HK\$47,737,000 (equivalent to approximately US\$6,160,000) on 31 December 2020, which was, in the opinion of the directors of the Company, approximated to the fair value of the equity interest in Cosmic measured by the independent valuation expert.

The above unlisted equity securities are designated as financial assets at FVTOCI (non-recycling) as the investment is held for long-term strategic purposes. Cosmic, through its operating subsidiary which is incorporated in Hong Kong, is principally engaged in one-stop supply chain financial platform, which provide global supply chain services, booking online by clicking one button.

No dividends were received from this investment during the year (2021: Nil).

11. Trade and bills receivables

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
Trade receivables, gross	21,200	37,465
Less: allowance for ECL on trade receivables	(939)	(483)
	<hr/>	<hr/>
Trade receivables, net	20,261	36,982
Bills receivables	3,838	653
	<hr/>	<hr/>
	<u>24,099</u>	<u>37,635</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 (2021: 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. Trade receivables are non-interest bearing and the Group does not hold any collateral in relation to these receivables.

The ageing analysis of trade receivables, net of expected credit loss ("ECL") allowances, based on the past due dates, is as follows:

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
Neither past due nor impaired	19,725	33,042
1–30 days past due	229	653
31–90 days past due	262	2,384
91–120 days past due	—	—
More than 120 days past due	45	903
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	<u>20,261</u>	<u>36,982</u>

The movements in allowances for ECL on trade receivables are as follows:

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
At 1 January	483	394
Allowances for ECL recognised to the consolidated profit or loss	465	89
Exchange realignment	(9)	—
	<hr/>	<hr/>
At 31 December	<u>939</u>	<u>483</u>

Ageing analysis of the Group's trade receivables, net of ECL allowance, based on the invoice dates, is as follows:

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
1 to 30 days	12,888	16,525
31 to 90 days	6,734	17,359
91 to 120 days	391	1,691
Over 120 days	248	1,407
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	<u>20,261</u>	<u>36,982</u>

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

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
1 to 30 days	398	363
31 to 90 days	2,898	163
91 to 120 days	341	—
121 to 180 days	201	127
	<hr/>	<hr/>
	<u>3,838</u>	<u>653</u>

12. Trade and bills payables

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
Trade payables	7,055	9,019
Bills payables	11,061	14,269
	<u>18,116</u>	<u>23,288</u>

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

	2022 <i>US\$'000</i>	2021 <i>US\$'000</i>
1 to 30 days	4,491	6,777
31 to 90 days	2,523	2,227
91 to 120 days	36	—
Over 120 days	5	15
	<u>7,055</u>	<u>9,019</u>

At 31 December 2022 and 2021, all bills payables were secured by an assignment over the Group's life insurance policies and pledged bank deposits.

13. Share capital

	Number of ordinary shares	Share capital <i>US\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	<u>2,000,000,000</u>	<u>2,579</u>
Issued and fully paid:		
At 1 January 2021, 31 December 2021 and 1 January 2022	800,000,000	1,032
Issuance of shares upon the Rights Issue (<i>note</i>)	<u>298,122,380</u>	<u>385</u>
At 31 December 2022	<u>1,098,122,380</u>	<u>1,417</u>

Note:

On 14 November 2022, the Company proposed rights issue on the basis of two rights shares for every five existing shares held on 28 November 2022 (the “**Rights Issue**”), at the subscription price of HK\$0.063 per rights share.

On 28 December 2022, the Rights Issue was completed and 298,122,380 ordinary shares were issued. The net proceeds after deducting the related expenses of approximately HK\$1,022,000 (equivalent to approximately US\$132,000), amounted to approximately HK\$17,760,000 (equivalent to approximately US\$2,292,000). Accordingly, the Company’s share capital increased by approximately HK\$2,981,000 (equivalent to approximately US\$385,000) and the remaining balance of the net proceeds of approximately HK\$14,779,000 (equivalent to approximately US\$1,907,000) was credited to the share premium account.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2022, total revenue decreased by 45.2% to US\$121.7 million. The drop was mainly attributable to a general slowdown of economic and manufacturing activities in the second half of the year. In particular, trading condition was exacerbated by lockdowns of the Group's main subsidiaries in China as a result of Covid cases discovered in such cities. Consequently, the Group's offices and warehouses in China had not been able to operate in a normal manner..

Gross Profit

Gross profit for the year ended 31 December 2022 decreased by 33.3% year-on-year to US\$8.4 million, which was mainly due to the decrease in revenue resulting from sales drop in product solution, in particular applications in IT communication modules in the mobile devices and smart charging. Gross profit margin increase from 5.7% to 6.9%, which was mainly driven by the higher margin of motor control.

Other Income

The Group's other income amounted to US\$0.2 million for the year ended 31 December 2022, which mainly included government grants and imputed interest income on life insurance policy deposits.

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. During the Year, the Group's selling and distribution expenses amounted to US\$3.3 million which is comparable to 2021.

General and Administrative Expenses

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

During the Year, general and administrative expenses amounted to US\$5.3 million which increased by US\$0.1 million when compared with 2021.

Finance Costs

During the Year, finance costs amounted to US\$1.6 million, when compared with 2021, a decrease of US\$0.2 million is noted. The decrease in finance cost was in line with the decrease in bank and other borrowings during the year.

Income Tax Credit/(Expense)

During the Year, income tax credit was US\$0.5 million (2021: income tax expense US\$0.3 million).

Loss for the Year

As a result of the above factors, the Group's profit after tax experienced a change from US\$2.2 million for the year ended 31 December 2021 to a net loss of US\$1.6 million for the year ended 31 December 2022.

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2022, but represents an extract from the consolidated financial statements for the year ended 31 December 2022 which have 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 2022, the Group had cash and cash equivalents of US\$2.3 million (2021: US\$7.7 million).

As at 31 December 2022, the Group had recorded net current assets of US\$22.0 million (2021: US\$25.4 million).

As at 31 December 2022, the gearing ratio of the Group was 39.1% (2021: 47.8%), which computed based on total debts (including bank and other borrowings and bills payables) divided by total equity plus total debts.

The decrease in bank and other borrowings was mainly due to the Group had settled several discounted invoices during the year. At as 31 December 2022, the Group had bank and other borrowings amounting to US\$11.1 million (2021: US\$17.1 million).

The annual weighted average interest rate of the bank and other borrowings during the Year was 6.88% (2021: 2.19%).

USE OF PROCEEDS FROM THE RIGHTS ISSUE

On 14 November 2022, the Company proposed rights issue on the basis of two rights shares for every five existing shares held on 28 November 2022, at the subscription price of HK\$0.063 per rights share.

On 28 December 2022, the Rights Issue was completed and 298,122,380 ordinary shares were issued. The net proceeds after deducting the related expenses of HK\$1.0 million (equivalent to US\$0.1 million), amounted to HK\$17.8 million (equivalent to US\$2.3 million). Accordingly, the Company's share capital increased by HK\$3 million (equivalent to US\$0.4 million) and the remaining balance of the net proceeds of HK\$14.8 million (equivalent to US\$1.9 million) was credited to the share premium account.

The net proceeds from the Rights Issue of HK\$17.8 million (equivalent to US\$2.3 million), after deducting the underwriting fees, commissions and expenses payable by us, have been and will be utilised in the same manner, proportion and the expected timeframe as set out in the announcement of the Company dated 14 November 2022 under the section headed "Use of Proceeds". The table below sets out the planned applications of the net proceeds and actual usage up to 31 December 2022:

Use of proceeds	Approximate percentage of total amount	Actual amount of Net Proceeds (HK\$'000)	Actual usage up to 31 December 2022 (HK\$'000)	Unutilised amount as at 31 December 2022 (HK\$'000)
(i) Finance payment for purchases of ICs	90%	16.0	11.1	4.9
(ii) Working capital	10%	1.8	1.8	—
	<u>100%</u>	<u>17.8</u>	<u>12.9</u>	<u>4.9</u>

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group had 107 employees (2021: 112 employees). During the Year, employee benefit expenses (including directors' remuneration) amounted to US\$4.8 million (2021: US\$5.7 million), accounting for 4% (2021: 3%) of total revenue for 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, mandatory provident fund, social insurance and housing allowance in PRC. 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 2022, 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.

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.

PUBLIC FLOAT

As at the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2022.

SCOPE OF WORK OF INDEPENDENT AUDITOR

The figures in respect of the Group’s consolidated statement of financial position as at 31 December 2022, 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 2022 as set out in this announcement have been agreed by the Company’s independent auditor, Moore Stephens CPA Limited, Certified Public Accountants, to the amounts as set out in the Group’s audited consolidated financial statements for the year ended 31 December 2022 and the amounts were found to be in agreement. The work performed by Moore Stephens CPA Limited in this respect did not constitute an 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 Moore Stephens CPA Limited on this announcement.

AUDIT COMMITTEE

The Audit Committee comprises all the three independent non-executive Directors, namely Mr. Dan Kun Lei, Raymond, Mr. Chan Ngai Fan (chairman) and Mr. Lai Man Shun.

The Group's annual audited results during the year ended 31 December 2022 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

REMUNERATION COMMITTEE

The Remuneration Committee comprises all the three independent non-executive Directors, namely Mr. Dan Kun Lei, Raymond, Mr. Lam Keung and Mr. Lai Man Shun (chairman).

The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for remuneration of all the Directors and senior management of the Company and making recommendations to the Board on the remuneration packages of individual executive Director and senior management.

NOMINATION COMMITTEE

The Nomination Committee currently comprises of one executive Director, Mr. Lam Keung (chairman), and two independent non-executive Directors, namely, Mr. Lai Man Shun and Mr. Chan Ngai Fan.

The Nomination Committee is mainly responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of the independent non-executive Directors; and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The Nomination Committee formulated the Board diversity policy and the Company has adopted the Board diversity policy. The Company recognises and embraces the benefits of diversity in Board members. Selection of Board members will be based on a range of diversified perspectives, including but not limited to gender, age, ethnicity, cultural and educational background, or professional experience. All Board appointments will be based on merit and the needs of the Company's business while taking into account diversity. The Nomination Committee also monitors the implementation of this policy and reports to the Board on the achievement of the measurable objectives for achieving diversity under this policy.

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 2022 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.

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

Hong Kong, 30 March 2023

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