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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 2024

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 2024 (the “**Period**”), together with comparative figures for the six months ended 30 June 2023 (the “**Preceding Period**”). The audit committee of the Company (the “**Audit Committee**”) has reviewed and discussed with the management of the Company the unaudited condensed consolidated financial statements of the Group for the Period.

FINANCIAL HIGHLIGHTS

	Six months ended	
	30 June 2024	30 June 2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Revenue	30,775	33,087
Gross profit	2,377	2,818
Loss for the period	(2,834)	(2,713)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2024

	<i>Notes</i>	Six months ended	
		30 June 2024	30 June 2023
		<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	5	30,775	33,087
Cost of sales		<u>(28,398)</u>	<u>(30,269)</u>
Gross profit		2,377	2,818
Other income	5	44	133
Selling and distribution expenses		(1,194)	(1,577)
General and administrative expenses		(2,523)	(3,138)
(Provision for)/reversal of allowance for expected credit loss on trade receivables		(100)	78
Finance costs	6	<u>(1,345)</u>	<u>(1,024)</u>
Loss before income tax	7	(2,741)	(2,710)
Income tax expense	8	<u>(93)</u>	<u>(3)</u>
Loss for the period attributable to the owners of the Company		<u>(2,834)</u>	<u>(2,713)</u>
		<i>US cents</i>	<i>US cents</i>
Loss per share attributable to the owners of the Company			
Basic and diluted	10	<u>(0.25)</u>	<u>(0.25)</u>
		<i>HK cents</i>	<i>HK cents</i>
Equivalent to		<u>(1.94)</u>	<u>(1.91)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	Six months ended	
	30 June 2024	30 June 2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period	<u>(2,834)</u>	<u>(2,713)</u>
Other comprehensive loss		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translating of financial statements of foreign operations	<u>(3)</u>	<u>(76)</u>
Other comprehensive loss for the period attributable to the owners of the Company	<u>(3)</u>	<u>(76)</u>
Total comprehensive loss for the period attributable to the owners of the Company	<u><u>(2,837)</u></u>	<u><u>(2,789)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

		As at	
		30 June 2024	31 December 2023
	<i>Notes</i>	<i>US\$'000</i> (Unaudited)	<i>US\$'000</i> (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		555	566
Intangible assets		4,353	3,491
Goodwill		—	—
Life insurance policy deposits	<i>11</i>	2,493	2,734
Financial assets at fair value through other comprehensive income	<i>12</i>	<u>4,255</u>	<u>4,255</u>
		11,656	11,046
Current assets			
Inventories		9,968	14,007
Trade and bills receivables	<i>13</i>	22,564	19,047
Prepayments, deposits and other receivables		7,101	7,148
Amounts due from related parties	<i>18</i>	26	26
Pledged bank deposits	<i>14</i>	378	379
Cash and cash equivalents	<i>14</i>	<u>1,667</u>	<u>2,536</u>
		41,704	43,143
Current liabilities			
Trade and bills payables	<i>15</i>	10,247	15,491
Accruals, contract liabilities and other payables		4,600	2,791
Lease liabilities		90	180
Bank and other borrowings	<i>16</i>	<u>16,795</u>	<u>12,715</u>
		31,732	31,177
Net current assets		<u>9,972</u>	<u>11,966</u>
Total assets less current liabilities		<u>21,628</u>	<u>23,012</u>

		As at	
		30 June	31 December
		2024	2023
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Audited)
Non-current liabilities			
Lease liabilities		85	—
Shareholder's loan	<i>18</i>	1,282	—
Deferred tax liabilities		501	415
		<u>1,868</u>	<u>415</u>
NET ASSETS		<u>19,760</u>	<u>22,597</u>
EQUITY			
Share capital	<i>17</i>	1,417	1,417
Reserves		18,343	21,180
TOTAL EQUITY		<u>19,760</u>	<u>22,597</u>

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2024

Equity attributable to the owners of the Company

	Share capital US\$'000	Share premium US\$'000	Fair value through other comprehensive income reserve US\$'000	Other reserve US\$'000	Merger reserve US\$'000	Statutory surplus reserve US\$'000	Translation reserve US\$'000	Retained earnings US\$'000	Total US\$'000
At 1 January 2024 (Audited)	1,417	14,700	(1,905)	10,076	(7,021)	731	(497)	5,096	22,597
Loss for the period	—	—	—	—	—	—	—	(2,834)	(2,834)
Exchange differences arising on translating of financial statements of foreign operations	—	—	—	—	—	—	(3)	—	(3)
Total comprehensive loss for the period	—	—	—	—	—	—	(3)	(2,834)	(2,837)
At 30 June 2024 (Unaudited)	1,417	14,700	(1,905)	10,076	(7,021)	731	(500)	2,262	19,760
At 1 January 2023 (Audited)	1,417	14,700	133	10,076	(7,021)	731	(403)	14,845	34,478
Loss for the period	—	—	—	—	—	—	—	(2,713)	(2,713)
Exchange differences arising on translating of financial statements of foreign operations	—	—	—	—	—	—	(76)	—	(76)
Total comprehensive loss for the period	—	—	—	—	—	—	(76)	(2,713)	(2,789)
At 30 June 2023 (Unaudited)	1,417	14,700	133	10,076	(7,021)	731	(479)	12,132	31,689

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Corporate Information

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

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 unaudited condensed 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.

The unaudited condensed consolidated financial statements were approved for issuance by the board of directors on 28 August 2024.

2. Basis of Preparation

The unaudited condensed consolidated financial statements for the six months ended 30 June 2024 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 Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income, which have been measured at fair value as at the end of the reporting period.

These unaudited condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2023, except for the adoption of the revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which includes all applicable individual HKFRSs, HKASs and Interpretations).

These unaudited condensed consolidated 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 amendment that is not yet effective for the current accounting period.

Application of amendments to HKFRSs

In the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2024, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2024:

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

The application of the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

3. Critical Accounting Estimates and Judgements

The preparation of unaudited condensed consolidated 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 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 2023.

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 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, 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 and financial assets at fair value through other comprehensive income) is presented based on the location of assets as follows:

	Six months ended	
	30 June 2024	30 June 2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15 recognised at a point in time		
Hong Kong	23,793	22,571
The PRC	6,982	10,516
	<u>30,775</u>	<u>33,087</u>
	<u>30,775</u>	<u>33,087</u>
	As at	
	30 June	31 December
	2024	2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
Non-current assets		
Hong Kong	2,756	2,246
The PRC	2,152	1,811
	<u>4,908</u>	<u>4,057</u>
	<u>4,908</u>	<u>4,057</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 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 period are as follows:

	Six months ended	
	30 June 2024	30 June 2023
	<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 products and electronic products	<u>30,775</u>	<u>33,087</u>

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.

	Six months ended	
	30 June 2024	30 June 2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Other income		
Bank interest income	3	9
Government grants (<i>note</i>)	—	53
Imputed interest income on life insurance policy deposits	39	52
Others	2	19
	<u>44</u>	<u>133</u>

Note:

The government grants represented the subsidies granted by the PRC government for encouragement to local business activities during the six months ended 30 June 2023. There were no unfulfilled conditions or other contingencies attached to these subsidies at the end of the reporting period.

6. Finance Costs

	Six months ended	
	30 June 2024	30 June 2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Interest on bills payables	352	396
Interest on discounted bills	44	35
Interest on lease liabilities	4	8
Interest on bank borrowings	329	234
Interest on other borrowings	616	351
	1,345	1,024

7. Loss Before Income Tax

Loss before income tax is arrived at after charging:

	Six months ended	
	30 June 2024	30 June 2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Amortisation of intangible assets	64	60
Amortisation of life insurance policy deposits	13	22
Cost of inventories recognised as expenses	28,221	29,974
Depreciation of property, plant and equipment	304	299
Employee benefit expenses (including directors' remuneration)		
Salaries and allowances	1,364	2,138
Pension scheme contributions		
— Defined contribution plan	140	254
Expenses relating to the short term leases	62	6

8. Income Tax Expense

	Six months ended	
	30 June 2024	30 June 2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
The PRC Corporate Income Tax		
— Under-provision in prior periods	—	3
Deferred tax	93	—
	93	3

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 under these jurisdictions during the six months ended 30 June 2024 (2023: Nil).

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% (2023: 8.25%), and profits above HK\$2,000,000 (equivalent to approximately US\$258,000) will be taxed at 16.5% (2023: 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% (2023: 16.5%) during the period.

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2024 and 2023, as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

The provision for the PRC Corporate Income Tax was based on the statutory rate of 25% (2023: 25%) of the assessable profits of subsidiaries which carried on businesses in the PRC during the period. No provision for the PRC Corporate Income Tax has been made for the six months ended 30 June 2024 and 2023, as the Group did not have assessable profits subject to the PRC Corporate Income Tax during the period.

9. Dividends

No interim dividend was paid or proposed for ordinary shareholders of the Company during the period, nor has any dividend been proposed since the end of the reporting period (2023: Nil).

10. Loss Per Share

The calculation of the basic loss per share attributable the owners of the Company is based on the following data:

	Six months ended	
	30 June 2024	30 June 2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period attributable to the owners of the Company for the purpose of basic loss per share	<u>(2,834)</u>	<u>(2,713)</u>
	Number of shares	
	Six months ended	
	30 June 2024	30 June 2023
	<i>'000</i>	<i>'000</i>
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,098,122</u>	<u>1,098,122</u>

Diluted loss per share were same as the basic loss per share as there were no dilutive potential shares outstanding during the six months ended 30 June 2024 and 2023.

11. Life Insurance Policy Deposits

Certain life insurance policies (the “Policies”) with a carrying amount approximately US\$2,493,000 (31 December 2023: US\$2,734,000) were entered into by the Group to insure two of the directors of the Company, Mr. Lam and Ms. Cheng Yu Pik. Under the Policies, the beneficiary and policy holder is the Group and the total insured sum was US\$9,196,000 as at 30 June 2024 (31 December 2023: US\$10,537,000). The Group can terminate the Policies at any time and can receive cash back based on the net nominal account value of the Policies at the date of withdrawal. Interest is earned at interest rates of at least those guaranteed by the insurer.

At the inception date, the upfront payments of the Policies were separated into deposits placed and prepayments of life insurance premium. The deposits element was measured at costs adjusted for interests and charges recognised for each period and the prepayments of life insurance premium were stated at cost less subsequent accumulated amortisation over the insurance periods.

As at 30 June 2024, certain Policies with carrying amount of approximately US\$2,493,000 (31 December 2023: US\$2,149,000) were pledged to several banks to secure bills payable (note 15) and bank borrowings (note 16) granted to the Group.

12. Financial Assets at Fair Value Through Other Comprehensive Income

	As at	
	30 June 2024 US\$'000 (Unaudited)	31 December 2023 US\$'000 (Audited)
Financial assets at fair value through other comprehensive income		
— Unlisted equity securities in the BVI company, Cosmic Paramount Limited (“Cosmic”)	<u>4,255</u>	<u>4,255</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 above unlisted equity securities are designated as financial assets at fair value through other comprehensive income (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 on this investment during the period (2023: Nil).

13. Trade and Bills Receivables

	As at	
	30 June	31 December
	2024	2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
Trade receivables, gross	19,855	17,457
Less: allowance for expected credit loss on trade receivables, net	(1,277)	(1,180)
Trade receivables, net	18,578	16,277
Bills receivables	3,986	2,770
	<u>22,564</u>	<u>19,047</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 (31 December 2023: 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.

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 entered into two receivable purchase arrangements (the “**Arrangements**”) with two commercial banks in Hong Kong to discount certain trade receivables with full recourse to the banks. At 30 June 2024, the Group discounted trade receivables with a carrying amount of approximately US\$6,039,000 (31 December 2023: US\$5,781,000). Under the Arrangements, the Group may be required to reimburse the banks for loss of interest if the trade debtor has late payment up to 180 days. The details of interest are set out in note 16(b) to these condensed consolidated financial statements. The Group was therefore exposed to the risks of credit losses and late payment in respect of the discounted debts. In the opinion of the directors, the discounting transactions did not meet the requirements in HKFRS 9 for derecognition of financial assets as the Group has retained the substantial risks and rewards of ownership of the discounted trade debts, which include default risks relating to such discounted trade receivables, and accordingly, it continued to recognise the full carrying amounts of approximately US\$6,039,000 (31 December 2023: US\$5,781,000) of the discounted trade receivables.

The proceeds of the discounting arrangement were included in bank borrowings as asset-backed financing until the trade debts were collected or the Group settled any losses suffered by the banks. At 30 June 2024, the asset-backed financial liabilities amounted to approximately US\$8,976,000 (31 December 2023: US\$4,933,000) (note 16(b)).

The ageing analysis of the trade receivables, net of expected credit loss allowance, based on the invoice dates, is as follows:

	As at	
	30 June	31 December
	2024	2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
1 to 30 days	14,844	5,078
31 to 90 days	1,105	9,326
91 to 120 days	1,397	780
Over 120 days	1,232	1,093
	<u>18,578</u>	<u>16,277</u>

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

	As at	
	30 June	31 December
	2024	2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
1 to 30 days	886	196
31 to 90 days	1,259	1,804
91 to 120 days	576	407
Over 120 days	1,265	363
	<u>3,986</u>	<u>2,770</u>

14. Pledged Bank Deposits and Cash and Cash Equivalents

As at 30 June 2024, the Group's bank deposits of approximately US\$378,000 (31 December 2023: US\$379,000), carrying interest rate range from 0.01% to 4.01% (31 December 2023: 0.01% to 4.01%) per annum was pledged to secure the bills payable (note 15) and bank borrowings (note 16).

Cash and cash equivalents represent cash at banks and on hand. Bank balances carry interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Included in bank balances, there was approximately US\$797,000 (31 December 2023: US\$829,000) denominated in RMB and deposited with banks in the PRC as at 30 June 2024, RMB is not freely convertible into other currencies, however, under Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations in the PRC, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

15. Trade and Bills Payables

	As at	
	30 June 2024 US\$'000 (Unaudited)	31 December 2023 US\$'000 (Audited)
Trade payables	3,861	7,641
Bills payables	6,386	7,850
	<u>10,247</u>	<u>15,491</u>

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

	As at	
	30 June 2024 US\$'000 (Unaudited)	31 December 2023 US\$'000 (Audited)
1 to 30 days	1,311	2,081
31 to 90 days	2,161	3,966
91 to 120 days	388	1,585
Over 120 days	1	9
	<u>3,861</u>	<u>7,641</u>

At 30 June 2024 and 31 December 2023, all bills payable were secured by an assignment over certain Policies (note 11) and pledged bank deposits (note 14).

16. Bank and Other Borrowings

	As at	
	30 June	31 December
	2024	2023
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
Bank borrowings — secured (<i>note (a) and (b)</i>)	9,862	5,923
Other borrowings — secured (<i>note (c)</i>)	165	483
Other borrowings — unsecured (<i>note (d)</i>)	3,413	3,805
Discounted bills with recourse — secured (<i>note (e)</i>)	3,355	2,504
	16,795	12,715

Notes:

- (a) As at 30 June 2024, several bank borrowings with carrying amounts of approximately US\$12,000 and US\$48,000 (31 December 2023: US\$27,000 and US\$60,000), which were secured by an assignment over the Policies (note 11) and pledged bank deposits (note 14). Interest rates were variable and charged in the range from 4.53% to 7.75% (31 December 2023: from 4.53% to 7.75%) per annum during the six months ended 30 June 2024. The borrowings were repayable by monthly instalments and due on November 2024 and April 2026 (31 December 2023: November 2024 and April 2026), respectively, the amounts were classified as current liabilities due to the borrowings contain a repayable on demand clause.

As at 30 June 2024, the balance also included a loan with a principal amount of RMB6,000,000 (equivalent to approximately US\$826,000) (31 December 2023: RMB6,000,000 (equivalent to approximately US\$843,000)) which was guaranteed by Shanghai Administration Centre of Policy Financing Guarantee Funds for Small and Medium-sized Enterprises and a director of Shanghai IH and his spouse with fixed interest rate at 3.15% (31 December 2023: 3.15%) per annum and repayable in September 2024 (31 December 2023: September 2024).

- (b) As mentioned in note 13, the Group entered into the Arrangement with the bank to discount certain trade receivables with full recourse to the banks. As at 30 June 2024, the corresponding bank borrowings amounted to approximately US\$8,976,000 (31 December 2023: US\$4,993,000), which were secured by an assignment over the Policies (note 11) and pledged bank deposits (note 14).

The bank facility provides 1) US\$ financing with interest charged at 2.16% per annum over USD Reference Rate (31 December 2023: 2.16% per annum over USD Reference Rate); 2) HK\$ financing with interest charged at 2% per annum over 3-month HIBOR (31 December 2023: 2% per annum over 3-month HIBOR); and 3) RMB financing with interest charged at 2% per annum over 3-month HIBOR (31 December 2023: 2% per annum over 3-month HIBOR).

- (c) As at 30 June 2024, the balance included a loan from an independent third party with carrying amount of approximately US\$165,000 (31 December 2023: US\$483,000) and guaranteed by a subsidiary of the Company, carried a variable interest rate at 2% over 1-month HIBOR (31 December 2023: 2% over 1-month HIBOR) and repayable in December 2024 by monthly instalment.
- (d) As at 30 June 2024, the balance included two loans with the principal amounts of approximately US\$2,360,000 and US\$1,053,000 (31 December 2023: US\$2,360,000 and US\$1,445,000), respectively which were unsecured with fixed monthly interest rates at 2.5% (31 December 2023: 2.5%) and 2.5% (31 December 2023: 2.5%) per annum, respectively and repayable on demand.
- (e) As at 30 June 2024, all borrowings from discounted bills with recourse with carrying amount of approximately US\$3,355,000 (31 December 2023: US\$2,504,000) with variable interest charged in the range from 0.8% to 3.3% (31 December 2023: from 0.8% to 3.3%) per annum as at 30 June 2024 (note 20).

17. Share Capital

	Number of ordinary shares	Share capital <i>US\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2024 and 30 June 2024	<u>2,000,000,000</u>	<u>2,579</u>
At 1 January 2023 and 30 June 2023	<u>2,000,000,000</u>	<u>2,579</u>
Issued and fully paid:		
At 1 January 2024 and 30 June 2024	<u>1,098,122,380</u>	<u>1,417</u>
At 1 January 2023 and 30 June 2023	<u>1,098,122,380</u>	<u>1,417</u>

18. Related Party Disclosures

(a) Balances with related parties

		As at	
		30 June 2024	31 December 2023
	<i>Notes</i>	<i>US\$'000</i> (Unaudited)	<i>US\$'000</i> (Audited)
Amounts due from related companies	<i>(i), (ii)</i>	26	26
Shareholder's loan	<i>(iii)</i>	1,282	—

Notes:

- (i) P. Grand (BVI) Ltd. and Kingtech (BVI) Ltd. are the related companies controlled by Mr. Lam and Ms. Feng Tao, the spouse of Mr. Qing, respectively.
- (ii) The amounts due were unsecured, non-interest bearing and repayable on demand.
- (iii) The loan was provided by Mr. Lam which is non-interest bearing and repayable in August 2026.

(b) Compensation of key management personnel

	Six months ended	
	30 June 2024	30 June 2023
	<i>US\$'000</i> (Unaudited)	<i>US\$'000</i> (Unaudited)
Short-term employee benefits	145	191
Pension scheme contributions	8	11
Total compensation paid to key management personnel	153	202

MANAGEMENT DISCUSSION AND ANALYSIS

1. OVERVIEW

The Group primarily engage in the sourcing and sale of Integrated circuit (“ICs”) products and the provisions of ICs 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.

Despite the end of the three-year Coronavirus Disease 2019 (COVID-19) pandemic, international and regional tensions have intensified the energy crisis, disrupted the global supply chain and hammered the economy. The post-pandemic recovery of the domestic economy has also been slower than expected. The uncertainties brought about a challenging business environment. Since the second half of 2022, as progressive innovation in the consumer electronics and other markets have entered the decline stage, the weak demand in the consumer market has caused chip suppliers to cut back on orders. The pressure on chip manufacturers to reduce inventory has risen sharply, and the semiconductor industry has entered a downward cycle. However, the demand for chips in the realm of high-power renewable energy, energy storage, industrial automation and artificial intelligence remains high under the systematic destocking cycle, bringing new development opportunities for semiconductor enterprises.

2. BUSINESS REVIEW

As a stable supplier of sourcing and sale of integrated circuit (“ICs”) products and the provisions of ICs application, the Group’s short-term results were challenged by the contraction in industry demand in the first half of 2024. However, the Group has been proactive in addressing market challenges and continues to explore new growth areas to build up strength for future development.

The Group focuses on the consumer and industrial product sectors, we source and sell ICs products. We also provide ICs 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) sensors and automation; (iv) LED lighting; and (v) RF power.

Breakdown of our revenue generated by product category for the six months ended 30 June 2024 and 30 June 2023 is set forth below:

	For the six months ended			
	30 June 2024		30 June 2023	
	<i>USD'000</i>	<i>%</i>	<i>USD'000</i>	<i>%</i>
Mobile devices and smart charging	15,593	51	15,193	46
Motor control	13,296	43	12,831	39
Sensors and automation	771	2	3,562	11
LED lighting	485	2	721	2
RF power	630	2	780	2
Total	<u>30,775</u>	<u>100</u>	<u>33,087</u>	<u>100</u>

3. FINANCIAL REVIEW

Revenue

Revenue for the Period is approximately US\$30.8 million as compared to approximately US\$33.1 million for the Preceding Period, which represents a decrease of approximately 6.9%. This is mainly attributed to the drop of business of the mobile devices and smart charging category.

Cost of sales

Cost of sales for the Period is approximately US\$28.4 million as compared to approximately US\$30.3 million for the Preceding Period, which represents a decrease of approximately 6.3%. 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 decrease is in line with the decrease in revenue.

Gross profit and gross profit margin

For the Period, the Group recorded gross profit of approximately US\$2.4 million, as compared to US\$2.8 million for the Preceding Period. The Group recorded an overall gross profit margin of approximately 7.7% and 8.5% for the Period and the Preceding Period, respectively.

Selling and distribution expenses

For the Period, the Group recorded selling and distribution expenses of US\$1.2 million as compared to US\$1.6 million, for the Preceding Period, a decrease of approximately US\$0.4 million is mainly due to the decrement in sales.

General and administration expenses

For the Period, the Group recorded general and administration expenses of US\$2.5 million as compared to US\$3.1 million, for the Preceding Period, a decrease of approximately US\$0.6 million is primary attributable to the fact that decrease in staff costs by approximately US\$0.9 million. General and administration expenses accounted for 8.1% and 9.4% of revenue for the Period and the Preceding Period, respectively.

Finance costs

For the Period, the Group recorded finance costs of approximately US\$1.3 million as compared to US\$1.0 million, for the Preceding Period, an increase of approximately US\$0.3 million is mainly due to rise of bank borrowing rates. For the Period, finance costs accounted for approximately 4.2% of the total revenue (Preceding Period: 3.0%). The Group's finance costs primarily represented our interest expenses incurred for short-term bank loans and the use of our trade financing facilities.

Income tax expenses

During the Period, the Group's income tax expenses represented deferred tax.

Loss for the period

The Group's loss after tax experienced a change from US\$2.8 million for the Preceding Period to a net loss of US\$2.7 million for the Period.

Indebtedness

Bank borrowings

As at 30 June 2024, our bank loans of approximately US\$9.0 million (31 December 2023: US\$5.0 million), were secured by (i) certain assignments of over our life insurance policies; and (ii) pledged bank deposits.

Lease liabilities

As at 30 June 2024, the Group had lease liabilities of approximately US\$175,000 (31 December 2023: US\$180,000) 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 2024, the total number of employees of the Group (excluding Directors) was approximately 87 (31 December 2023: approximately 91). 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 2024 and 31 December 2023, certain life insurance policies and pledged bank deposits were pledged to several banks to secure bills payables and bank borrowings granted to the Group, further details are disclosed in notes 11, 15 and 16 to the unaudited condensed consolidated financial statements in this announcement.

Commitments

At 30 June 2024 and 31 December 2023, the Group had no material capital commitment.

Contingent liabilities

As at 30 June 2024 and 31 December 2023, 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 2024 (2023: Nil).

Subsequent Events After the Reporting Period

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

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 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 condensed consolidated financial statements of the Group for the six months ended 30 June 2024 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 announcement, 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 announcement, 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 2024

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