



TEM Holdings Limited **創新電子控股有限公司***

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 8346

2018/2019

First Quarterly Report

* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lau Man Tak (*Chairman*)

Mr. Vincent Ho Pang Cheng

(*Chief Executive Officer*)

Mr. Kan Wai Kee

Ms. Koay Lee Chern

Independent Non-Executive Directors

Mr. Lum Chor Wah Richard

Mr. Ma Yiu Ho Peter

Mr. Lee Hon Man Eric

AUDIT COMMITTEE

Mr. Ma Yiu Ho Peter (*Chairman*)

Mr. Lum Chor Wah Richard

Mr. Lee Hon Man Eric

NOMINATION COMMITTEE

Mr. Lee Hon Man Eric (*Chairman*)

Mr. Lau Man Tak

Mr. Vincent Ho Pang Cheng

Mr. Lum Chor Wah Richard

Mr. Ma Yiu Ho Peter

REMUNERATION COMMITTEE

Mr. Lum Chor Wah Richard (*Chairman*)

Mr. Lau Man Tak

Mr. Vincent Ho Pang Cheng

Mr. Ma Yiu Ho Peter

Mr. Lee Hon Man Eric

COMPANY SECRETARY

Ms. Ng Ka Wai

AUTHORISED REPRESENTATIVES

Mr. Lau Man Tak

Mr. Kan Wai Kee

COMPLIANCE OFFICER

Mr. Kan Wai Kee

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited

P.O. Box 1350, Clifton House

75 Fort Street

Grand Cayman, KY1-1108

Cayman Islands

REGISTERED OFFICE

P.O. Box 1350, Clifton House

75 Fort Street

Grand Cayman, KY1-1108

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1706, Tower 1

China Hong Kong City

33 Canton Road

Tsim Sha Tsui

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited

Room 2103B, 21/F, 148 Electric Road

North Point

Hong Kong

CORPORATE INFORMATION

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation Limited
Citibank N.A.

COMPANY'S WEBSITE

<http://ir.tem-group.com>

STOCK CODE

8346

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the "Board") of the Company hereby announces the unaudited condensed consolidated financial results of the Group for the three months ended 30 September 2018 together with the comparative unaudited figures for the corresponding period in 2017, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2018

| | | For the three months ended 30 September | |
|--------------------------------|-------|---|-------------|
| | | 2018 | 2017 |
| | | HK\$'000 | HK\$'000 |
| | Notes | (Unaudited) | (Unaudited) |
| Revenue | 3 | 26,545 | 27,469 |
| Cost of Sales | | (21,925) | (22,338) |
| Gross profit | | 4,620 | 5,131 |
| Other Income | 4 | 345 | 136 |
| Selling and distribution costs | | (753) | (773) |
| Administrative expenses | | (5,920) | (5,319) |
| Other gains and losses | 5 | (66) | 129 |
| Loss before taxation | | (1,774) | (696) |
| Income tax expense | 6 | (123) | (154) |
| Loss for the period | 7 | (1,897) | (850) |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | For the three months ended 30 September | |
|--|-------|--|---------------------------------|
| | | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| | Notes | | |
| Other comprehensive (expense) income | | | |
| <i>Item that will not be reclassified to profit or loss:</i> | | | |
| Exchange differences arising on translation to presentation currency | | – | 73 |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | (1,813) | 1,170 |
| Other comprehensive (expense) income for the period | | (1,813) | 1,243 |
| Total comprehensive (expense) income for the period | | (3,710) | 393 |
| Loss per share | | | |
| — Basic (HK cents) | 9 | (0.32) | (0.14) |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2018

| | Share capital HK\$'000 | Share premium HK\$'000 | Exchange reserve HK\$'000 | PRC Statutory reserve HK\$'000 (note) | Retained profits HK\$'000 | Total HK\$'000 |
|---|------------------------------|------------------------------|---------------------------------|---|---------------------------------|-------------------|
| At 1 July 2017 (audited) | 6,000 | 66,340 | (5,921) | 2,742 | 75,533 | 144,694 |
| Loss for the period | – | – | – | – | (850) | (850) |
| Exchange differences arising on translation to presentation currency | – | – | 73 | – | – | 73 |
| Exchange differences arising on translation of foreign operations | – | – | 1,170 | – | – | 1,170 |
| Total comprehensive income (expense) for the period | – | – | 1,243 | – | (850) | 393 |
| Transfer | – | – | – | 55 | (55) | – |
| At 30 September 2017 (unaudited) | 6,000 | 66,340 | (4,678) | 2,797 | 74,628 | 145,087 |
| At 1 July 2018 (audited) | 6,000 | 66,340 | (2,362) | 2,742 | 66,357 | 139,077 |
| Adjustment on adoption of HKFRS 9 | – | – | – | – | (526) | (526) |
| At 1 July 2018 (after adjustment) | 6,000 | 66,340 | (2,362) | 2,742 | 65,831 | 138,551 |
| Loss for the period | – | – | – | – | (1,897) | (1,897) |
| Exchange differences arising on translation of foreign operations | – | – | (1,813) | – | – | (1,813) |
| Total comprehensive expense for the period | – | – | (1,813) | – | (1,897) | (3,710) |
| At 30 September 2018 (unaudited) | 6,000 | 66,340 | (4,175) | 2,742 | 63,934 | 134,841 |

Note: The statutory reserve is non-distributable and the transfer to this reserve is determined by the board of directors of the subsidiaries in the People's Republic of China (the "PRC") in accordance with the relevant laws and regulations of the PRC. Appropriation to such reserve is made out of 10% of net profit after taxation reported in the statutory financial statements of the PRC subsidiaries annually. No appropriation is required if the balance at the statutory reserve has reached 50% of the registered capital of the relevant PRC subsidiaries. This reserve can be used to offset accumulated losses or to increase capital upon approval from the relevant authorities.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company is an exempted company incorporated in the Cayman Islands with limited liability and its shares are listed on GEM of the Stock Exchange. The Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance (Cap 622 of the laws of Hong Kong). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to this report.

The Company is an investment holding company. The principal activities of its subsidiaries are manufacture and sale of wire/cable harnesses and power supply cords assembled products; and trading of terminals, connectors and others.

The functional currency of the Company is United States dollars ("US\$"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$"). The directors of the Company have selected HK\$ as the presentation currency because the shares of the Company are listed on the Stock Exchange.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group for the three months ended 30 September 2018 have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements of the Group for the year ended 30 June 2018, except the new revised HKFRSs as described below.

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing assessment of credit risk associated with a financial asset and therefore recognize ECLs earlier than under the incurred loss accounting model in HKAS 39.

The Group applies HKFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables.

In current period, the Group has elected to use the cumulative effect transition method for the adoption of HKFRS 9 with cumulative effect of initial application recognized in the opening balance of equity at 1 July 2018.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 “Revenue from Contracts with Customers” as issued by the HKICPA is effective for the accounting period beginning on or after 1 January 2018. The Group has adopted HKFRS 15 on 1 July 2018 and also elected to apply the modified transition. The effects of the adoption of HKFRS 15 are set out below.

HKFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognize revenue when a performance obligation is satisfied. The core principle is that a company should recognize revenue when control of a good or service transfers to a customer.

From 1 July 2018 onwards, the Group has adopted the following accounting policies on revenues.

Revenue is recognized when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time. Control of the good or service is transferred over time if the Group’s performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the good or service transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the good or service.

The Group manufactures and sells a range of wire/cable harnesses, power supply cords assembled products and trading of terminals, connectors and other related products. Revenue is recognized when the control of the products are transferred to the customers at a point in time, being products are delivered to the customers with specified shipping terms, the customers have full discretion over the usage of the products, and there is no unfulfilled obligation that could affect the customers’ acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group have objective evidence that all criteria for acceptance have been satisfied.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued) HKFRS 15 “Revenue from Contracts with Customers” (Continued)

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The adoption of HKFRS 15 did not have significant impact on revenue recognition of the Group.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

The preparation of the unaudited condensed consolidated financial statements in conformity with the HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise their judgements in the process of applying the Group’s accounting policies.

The unaudited condensed consolidated financial statements have not been audited by the Company’s auditor, but have been reviewed by the audit committee of the Company (the “Audit Committee”).

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, net of discount and sales related taxes.

Segment revenue

The following is an analysis of the Group’s revenue by operating segments.

| | For the three months ended 30 September | |
|--|--|-------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Manufacturing of wire/cable harnesses | 21,951 | 23,202 |
| Manufacturing of power supply cords assembled products | 3,584 | 3,051 |
| Trading of terminals, connectors and others | 1,010 | 1,216 |
| | 26,545 | 27,469 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION (continued)

Geographical information

The Group's revenue by the geographical location of the customers, determined based on the location to which the Group bills the customers, is detailed below:

| | For the three months ended 30 September | |
|---|---|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| PRC | 7,564 | 10,302 |
| Asia Pacific region (excluding the PRC) | 15,323 | 14,800 |
| Western Europe | 2,302 | 2,093 |
| Others | 1,356 | 274 |
| | 26,545 | 27,469 |

Information about major customers

Revenue from customers for the three months ended 30 September 2018 and for the corresponding period in 2017 contributing over 10% of the Group's revenue are as follows:

| | For the three months ended 30 September | |
|------------|---|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Customer A | 13,110 | 11,632 |
| Customer B | 2,882 | 3,351 |
| Customer C | * | 3,148 |

* The corresponding revenue did not contribute over 10% of the Group's revenue.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. OTHER INCOME

| | For the three months ended 30 September | |
|----------------------|---|-------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Bank interest income | 214 | 43 |
| Others | 131 | 93 |
| | 345 | 136 |

5. OTHER GAINS AND LOSSES

| | For the three months ended 30 September | |
|---|---|-------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Net exchange (loss) gain | (266) | 129 |
| Gain on disposal of property, plant and equipment | 200 | – |
| | (66) | 129 |

6. INCOME TAX EXPENSE

| | For the three months ended 30 September | |
|-----------------------------------|---|-------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Current tax: | | |
| Malaysia corporate income tax | 117 | 128 |
| PRC Enterprise Income Tax ("EIT") | 20 | 14 |
| Singapore corporate income tax | – | 12 |
| Deferred tax credit | (14) | – |
| | 123 | 154 |

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the period under review.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX EXPENSE (continued)

The income tax rate applicable in Malaysia is 24% (2017: 24%) for the period under review.

The income tax rate applicable in Singapore is 17% (2017: 17%) for the period under review.

A subsidiary operating in Singapore is entitled to partial income tax exemption (75% exemption on first Singapore dollars ("SGD") 10,000 chargeable income and 50% exemption on next SGD290,000 chargeable income) for the three months ended 30 September 2017 and 2018.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the three months ended 30 September 2017 and 2018.

The EIT Law requires withholding tax to be levied on distribution of profits earned by a PRC entity to an overseas company (which is the beneficial owner of the dividends received) for profits generated after 1 January 2008, at the rate of 10%.

7. LOSS FOR THE PERIOD

| | For the three months ended 30 September | |
|--|---|-------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Loss for the period has been arrived at after charging: | | |
| Staff Costs | 6,835 | 6,179 |
| Cost of inventories recognized as expense | 21,925 | 22,338 |
| Depreciation of property, plant and equipment | 1,057 | 791 |
| Minimum lease payments for operating leases in respect of land and buildings | 893 | 894 |
| Write-down of inventories, net | 47 | – |

8. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 30 September 2018 (2017: nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. LOSS PER SHARE

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

| | For the three months ended 30 September | |
|---|---|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Loss: | | |
| Loss for the period attributable to owners of the Company | 1,897 | 850 |
| Number of shares: | | |
| Number of ordinary shares for the purpose of basic loss per share | 600,000,000 | 600,000,000 |

No diluted loss per share is presented for the current and prior periods as there were no potential ordinary shares in issue.

10. EVENTS AFTER REPORTING PERIOD

The Group had no significant events after the end of the reporting period of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in manufacturing and sale of wire/cable harnesses and power supply cords assembled products with our manufacturing operations in Malaysia and the PRC and has more than 20 years' experience in the wire/cable harness industry. We also sell terminals and connectors. The customers of the Group are generally global brand name home/consumer appliances manufacturers and original equipment manufacturers in the home/consumer appliances and industrial products industries, that mainly based in the Asia Pacific region.

The Group's revenue slightly decreased from approximately HK\$27,469,000 for the three months ended 30 September 2017 to approximately HK\$26,545,000 for the three months ended 30 September 2018, representing a decrease of approximately 3.4%. Such decrease is mainly attributable to a decrease in the completed orders resulted from the continuous shortage of supply and tight delivery of raw material from a major supplier which also led to an increase in the cost of direct materials and the cost of manufacturing overheads. As a result, the gross profit of the Group dropped by 10.0% from approximately HK\$5,131,000 for the three months ended 30 September 2017 to HK\$4,620,000 for the three months ended 30 September 2018 and gross profit margin dropped from 18.7% to 17.4% for the corresponding period. The loss for the three months ended 30 September 2018 was approximately HK\$1,897,000, increased from a loss of HK\$850,000 for the three months ended 30 September 2017.

By operating segments, the revenue of manufacturing of wire/cable harnesses was approximately HK\$21,951,000 for the three months ended 30 September 2018, representing a decrease of 5.4% as compared to approximately HK\$23,202,000 for the three months ended 30 September 2017. The revenue of manufacturing of power supply cords assembled products was approximately HK\$3,584,000 for the three months ended 30 September 2018, representing an increase of 17.5% as compared to approximately HK\$3,051,000 for the three months ended 30 September 2017. The revenue of trading of terminals, connectors and others was approximately HK\$1,010,000 for the three months ended 30 September 2018, representing a decline of 16.9% as compared to approximately HK\$1,216,000 for the three months ended 30 September 2017.

By geographical market segments, the revenue from the Asia Pacific region (excluding the PRC) for the three months ended 30 September 2018 was approximately HK\$15,323,000 and accounted for 57.7% of the Group's total revenue, represented an increase of 3.5% as compared to approximately HK\$14,800,000 for the three months ended 30 September 2017. The revenue from the PRC for the three months ended 30 September 2018 was approximately HK\$7,564,000 and accounted for 28.5% of the Group's total revenue and represented a decrease of 26.6% as compared to approximately HK\$10,302,000 for the three months ended 30 September 2017. The revenue from Western Europe for the three months ended 30 September 2018 was approximately HK\$2,302,000 and accounted for 8.7% of the Group's total revenue, represented an increase of 10.0% as compared to approximately HK\$2,093,000 for the three months ended 30 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Even though the economic outlook for the coming months is gloomy, the Group will continue to market our business to the potential customers so as to widen our customer base and to solidify the relationship with the existing customers. Exhibition — electronica 2018 participation in Germany and customers visits in Western Europe have been scheduled to carry out in November 2018.

The recent trade war between the PRC and the United States may have an impact on the business sentiments in the worldwide consumer markets such that the orders to be placed by our home appliances customers may be affected and the increasing costs of raw materials may also have an impact on the Group's profitability. Nevertheless, the Group will try its best to work around these issues and mitigate those impact.

FINANCIAL REVIEW

The Group's revenue decreased by 3.4% from approximately HK\$27,469,000 for the three months ended 30 September 2017 to approximately HK\$26,545,000 for the three months ended 30 September 2018. Cost of sales decreased by 1.8% from approximately HK\$22,338,000 for the three months ended 30 September 2017 to approximately HK\$21,925,000 for the three months ended 30 September 2018. The gross profit margin therefore declined from 18.7% for the three months ended 30 September 2017 to 17.4% for the three months ended 30 September 2018. Such decline was mainly caused by the continuous shortage of supply and tight delivery of raw material from a major supplier which led to an increase in the cost of direct materials and the cost of manufacturing overheads. As a result of the decrease in both revenue and gross profit margin, the gross profit of the Group dropped from approximately HK\$5,131,000 for the three months ended 30 September 2017 to approximately HK\$4,620,000 for the three months ended 30 September 2018.

Other income increased by 153.7% from approximately HK\$136,000 for the three months period ended September 30 2017 to approximately HK\$345,000 for the three months ended September 30, 2018. Such increase was mainly due to the increase in bank interest income and the one-off government grant of approximately HK\$115,000 received from the Jiangmen Science and Technology Bureau (江門市科學技術局) for promoting the development of innovative technology by enterprises in the PRC.

Selling and distribution costs mainly consisted of transportation, travelling expenses and storage costs, amounted to approximately HK\$773,000 for the three months ended 30 September 2017 and slightly decreased to approximately HK\$753,000 for the three months ended 30 September 2018. Though marketing activities had been continuously carried out, we kept on monitoring the expense incurred closely.

Administrative expenses, consisting primarily of staff costs, rental expenses, general office expenses, depreciation, licence fees, professional fees and travelling expenses increased by 11.3% from approximately HK\$5,319,000 for the three months ended 30 September 2017 to approximately HK\$5,920,000 for the three months ended 30 September 2018. The staff costs, licence fees and professional fees increased during the period under review as additional works have to be conducted in sourcing and testing alternative raw materials.

MANAGEMENT DISCUSSION AND ANALYSIS

Other gains and losses mainly comprised of net exchange loss and gain on disposal of property, plant and equipment, amounted to net other losses of approximately HK\$66,000 for the three months ended 30 September 2018 as compared to net other gains of approximately HK\$129,000 for the three months ended 30 September 2017. For the three months ended 30 September 2018, the Group recognized net exchange losses of approximately HK\$266,000 as a result of depreciation of Renminbi against HK\$ whilst we recognized an exchange gain of approximately HK\$129,000 for the three months ended 30 September 2017.

Income tax expense dropped by 20.1% from approximately HK\$154,000 for the three months ended 30 September 2017 to approximately HK\$123,000 for the three months ended 30 September 2018. Such drop was mainly due to the decrease in provision of Malaysia Corporate Income Tax and Singapore Corporate Income Tax as a result of the decrease in assessable profits for the three months ended 30 September 2018 as compared with the corresponding period last year.

As a result of the above, the Group recorded a loss of approximately HK\$1,897,000 for the three months ended 30 September 2018 while the loss for the three months ended September 30, 2017 was approximately HK\$850,000.

Dividend

The Board does not recommend the payment of any dividend for the three months ended 30 September 2018 (2017: nil).

Capital Structure

The share capital of the Company only comprises of ordinary shares. There has been no change in the capital structure of the Group since the listing of the shares of the Company (the “**Listing**”) on GEM of the Stock Exchange on 18 May 2016 (the “**Listing Date**”).

As at 30 September 2018, the Company’s issued share capital was HK\$6,000,000 and the number of its issued ordinary shares was 600,000,000 of HK\$0.01 each (the “**Share(s)**”).

Foreign Exchange Exposure

The revenue of the Group is mainly denominated in US\$, while several subsidiaries of the Company have foreign currency sales and purchases transactions denominated in MYR, Euro and Renminbi, which exposes the Group to foreign currency risk. The Group currently does not have a foreign exchange hedging policy to eliminate the currency exposures. Management will from time to time review and adjust the Group’s hedging and financial strategies based on exchange rate movement.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Investment Held

As at 30 September 2018 and 2017, the Group did not hold any significant investments.

Contingent Liabilities

As at 30 September 2018 and 2017, the Group did not have any material contingent liabilities.

Pledge of the Group's Assets

As at 30 September 2018, the bank deposits of approximately HK\$552,000 (30 June 2018: approximately HK\$567,000) were pledged to a bank to secure bank guarantee to a subsidiary of the Group.

USE OF PROCEEDS

The net proceeds from the Listing, after deducting listing related expenses, were approximately HK\$56,600,000. These proceeds are intended to be applied as described in the section headed "Future Plans and Use of Proceeds" in the prospectus dated 29 April 2016 (the "Prospectus"). As at 30 September 2018, the unused proceeds from the Listing in the amount of approximately HK\$42,640,000 has been placed as interest bearing deposits with licensed banks in Hong Kong. The Company intends to continue to apply the remaining net proceeds in accordance with the proposed applications set out below.

An analysis of the utilisation of the net proceeds from the Listing up to 30 September 2018 is set out below:

| | Planned use of net proceeds (Adjusted in the same manner as stated in Prospectus) HK\$'000 | Actual use of net proceeds up to 30 September 2018 HK\$'000 | Unutilised balance as at 30 September 2018 HK\$'000 |
|--|--|---|---|
| Upgrade and increase our production capacity | 40,978 | 10,150 | 30,828 |
| Enhance our manufacturing, information technology and human resources management capabilities | 4,528 | 2,183 | 2,345 |
| Strengthen our sales and marketing efforts | 6,226 | 1,627 | 4,599 |

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2018, the Directors and chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

Long positions in the Shares

Ordinary shares of HK\$0.01 each of the Company

| Name of Director | Capacity/ Nature of Interest | Number of ordinary shares held (Note 1) | Approximate shareholding percentage in the issued share capital of the Company (%) |
|--------------------------------|--|---|--|
| Mr. Lau Man Tak ("Mr. Lau") | Interest in a controlled corporation (Note 2) | 450,000,000 Shares (L) | 75 |

Notes:

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) 450,000,000 Shares were held by Jumbo Planet Group Limited ("Jumbo Planet") which is wholly owned by Mr. Lau.

Save as disclosed above, as at 30 September 2018, none of the Directors or the chief executive of the Company or any of their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2018, so far as is known to the Directors the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the Shares

Ordinary shares of HK\$0.01 each of the Company

| Name of shareholder | Nature of Interest | Number of ordinary shares held (Note 1) | Approximate shareholding percentage in the issued share capital of the Company (%) |
|----------------------------------|-------------------------------|---|--|
| Jumbo Planet | Beneficial owner (Note 2) | 450,000,000 Shares (L) | 75 |
| Ms. Lim Youngsook ("Ms. Lim") | Interest of a spouse (Note 3) | 450,000,000 Shares (L) | 75 |

Notes:

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) 450,000,000 Shares were held by Jumbo Planet which is wholly owned by Mr. Lau.
- (3) Ms. Lim is the spouse of Mr. Lau. By virtue of the SFO, Ms. Lim is deemed to be interested in the same number of shares in which Mr. Lau is deemed to be interested.

Saved as disclosed above, as at 30 September 2018, the Directors were not aware of any persons who had or deemed or taken to have any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company conditionally adopted the share option scheme on 20 April 2016 (the “**Share Option Scheme**”) which became unconditional upon Listing for a period of 10 years from 18 May 2016.

The Share Option Scheme is valid and effective for a period of 10 years from 18 May 2016 and its purpose is to reward eligible participants who have contributed or will contribute to the Group and to encourage eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group.

No share option has been granted since the adoption of the Share Option Scheme and there was no share option outstanding as at 30 September 2018.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than the Share Option Scheme, at no time during the three months ended 30 September 2018 was the Company, any of its holding companies, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the three months ended 30 September 2018, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company's shares.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions in securities of the Company. Based on specific enquiry with the Directors, all Directors confirmed that they had fully complied with the required standard of dealings and there was no event of non-compliance during the three months ended 30 September 2018.

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors during the three months ended 30 September 2018.

OTHER INFORMATION

DEED OF NON-COMPETITION

A deed of non-competition (the “**Deed of Non-competition**”) dated 20 April 2016 was entered into by Jumbo Planet and Mr. Lau in favour of the Company (for the Company and for the benefit of its subsidiaries) regarding non-competition undertakings. The details of the Deed of Non-competition have been disclosed in the Prospectus under the section headed “Relationship with our Controlling Shareholders” and the non-competition undertaking has become effective from the Listing Date.

COMPETING BUSINESS AND CONFLICT OF INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the three months ended 30 September 2018.

CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions in the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules (the “CG Code”). In the opinion of the Board, the Company has complied with the CG Code for the period under review.

OTHER INFORMATION

AUDIT COMMITTEE

The Company has established an Audit Committee pursuant to a resolution of the Directors passed on 20 April 2016 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with the CG Code have been adopted. The primary duties of the Audit Committee are mainly to make recommendations to the Board on appointment or reappointment and removal of external auditor; review financial statements and material advice in respect of financial reporting; and oversee internal control procedures of the Company. At present, the Audit Committee of the Company consists of three independent non-executive Directors as members who are Mr. Ma Yiu Ho Peter, Mr. Lum Chor Wah Richard and Mr. Lee Hon Man Eric. Mr. Ma Yiu Ho Peter who has the appropriate accounting and financial related management expertise, is the chairman of the Audit Committee.

The Group's unaudited condensed consolidated financial statements for the three months ended 30 September 2018 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited condensed consolidated financial statements of the Group for the three months ended 30 September 2018 comply with applicable accounting standards, the GEM Listing Rules and that adequate disclosures have been made.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within knowledge of the Directors, the Company has maintained the prescribed public float under the GEM Listing Rules as at the date of this report.

By order of the Board
TEM Holdings Limited

Lau Man Tak

Chairman and Executive Director

Hong Kong, 7 November 2018

As at the date of this report, the executive Directors are Mr. Lau Man Tak, Mr. Vincent Ho Pang Cheng, Mr. Kan Wai Kee and Ms. Koay Lee Chern; and the independent non-executive Directors are Mr. Lum Chor Wah Richard, Mr. Ma Yiu Ho Peter and Mr. Lee Hon Man Eric.