

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1912



INTERIM REPORT
2019



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CORPORATE INFORMATION

Executive Directors

Mr. Lam Keung (*Chairman*)
Mr. Qing Haodong
Mr. Mai Lu

Independent Non-Executive Directors

Mr. Dan Kun Lei Raymond
Mr. Wong Kwun Ho
Mr. Lai Man Shun

Audit Committee

Mr. Wong Kwun Ho (*Chairman*)
Mr. Dan Kun Lei Raymond
Mr. Lai Man Shun

Nomination Committee

Mr. Lam Keung (*Chairman*)
Mr. Lai Man Shun
Mr. Wong Kwun Ho

Remuneration Committee

Mr. Lai Man Shun (*Chairman*)
Mr. Lam Keung
Mr. Dan Kun Lei Raymond

Authorised Representatives

Mr. Lam Keung
Ms. Au Ka Man Silkie

Company Secretary

Ms. Au Ka Man Silkie

Auditors

Moore Stephens CPA Limited

Compliance Adviser

Alliance Capital Partners Limited

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre,
183 Queen's Road East,
Hong Kong

Cayman Islands Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
KY1-1111
Cayman Islands

Registered Office

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Headquarters and Principal Place of Business in Hong Kong

Unit No. A, 13th Floor, Block 1
Leader Industrial Centre
Nos. 188-202 Texaco Road
Tsuen Wan
New Territories
Hong Kong

Stock Code

1912

Company's Website

<http://www.conteltechnology.com>

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Contel Technology Company Limited (the “**Company**”, collectively with its subsidiaries, the “**Group**”), I am pleased to present the first interim report of the Group for the six months ended 30 June 2019.

The shares of the Company were successfully listed (the “**Listing**”) on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 July 2019. The Listing marks a remarkable milestone for the Group. The Company completed the initial public offering (the “**Share Offer**”) successfully, raising gross proceeds of approximately HK\$130 million. The Directors believe that the Listing would enhance the Group’s profile and bring along positive effects on the Group’s business opportunities in the market. Furthermore, the proceeds would provide the Group with the capital required for implementation of long-term development plan and support the growth of the Group.

Amid the global economic challenge, looking ahead the rest of the year would be challenging yet the operating environment of the Group is positive.

On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude to the management and entire staff of the Group for their diligent work and contribution in the past years. Last but not the least, I would like to extend my sincerest appreciation to the investors and shareholders of the Company for their confidence in and support for the Group. Moving forward, the Group will continue to be optimised and rationalised to provide the Group’s future development and business growth with a motive force. We will devote our best efforts to generate encouraging returns for our supportive shareholders.

Yours faithfully,
Lam Keung
Chairman

Hong Kong, 30 August 2019

MANAGEMENT DISCUSSION AND ANALYSIS

1. OVERVIEW

The Group primarily engage in the sourcing and sale of Integrated circuit (“**IC**”) products and the provisions of IC application solutions and value-added services to suit the needs of our customers. Our business is focused on fast-growing and emerging market categories, with an emphasis on providing environmentally-friendly and energy-saving solutions.

After years of continuous efforts, the Group has become a well-established fabless semiconductor application solutions provider specializing in the provision, design and development of IC application solutions and sale of ICs for consumer and industrial products. The aim of the Group is to strengthen our market position within the IC application solutions industry by increasing our market share and enhancing the quality of our services. We believe that this will bring sustainable growth to our business and create long-term value in the Group for our Shareholders.

2. BUSINESS REVIEW

The Group focuses on the consumer and industrial product sectors, we source and sell IC products. We also provide IC application solutions and value-added services to suit the needs of our customers. While our application solutions can be utilised in a wide range of electronic products, we specialise in the following five major product categories: (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation.

Breakdown of our revenue generated by product category for the six months ended 30 June 2019 (the “**Period**”) and the six months ended 30 June 2018 (the “**Preceding Period**”) is set forth below:

| | For the six months ended | | | |
|-----------------------------------|--------------------------|--------------|--------------|-------|
| | 30 June 2019 | | 30 June 2018 | |
| | USD'000 | % | USD'000 | % |
| Mobile devices and smart charging | 24,091 | 65.7 | 15,662 | 51.2 |
| Motor control | 5,652 | 15.4 | 7,364 | 24.1 |
| RF power | 2,772 | 7.5 | 3,442 | 11.3 |
| LED lighting | 2,127 | 5.8 | 3,161 | 10.3 |
| Sensors and automation | 2,049 | 5.6 | 951 | 3.1 |
| Total | 36,691 | 100.0 | 30,580 | 100.0 |

Breakdown of our gross profit by product category for the Period and the Preceding Period is set forth below:

| | For the six months ended | | | |
|-----------------------------------|---------------------------------|--------------|----------------|----------|
| | 30 June 2019 | | 30 June 2018 | |
| | USD'000 | % | <i>USD'000</i> | <i>%</i> |
| Mobile devices and smart charging | 1,922 | 50.2 | 2,096 | 50.6 |
| Motor control | 678 | 17.7 | 954 | 23.0 |
| RF power | 810 | 21.1 | 511 | 12.4 |
| LED lighting | 211 | 5.5 | 487 | 11.8 |
| Sensors and automation | 209 | 5.5 | 92 | 2.2 |
| Total | 3,830 | 100.0 | 4,140 | 100.0 |

Mobile devices and smart charging

The mobile devices category focuses on products utilising low power radio frequency connectivity and signal transmissions. ICs in the mobile devices category are antennae-centric products, which enable and improve the wireless functions (such as 2G/3G/4G/LTE and wifi connectivity) of the antennae of cars, mobile phones and tablets, smart watches and other wifi-enabled devices. The Group assist customers in developing the application solutions for such ICs to match their product requirements and restrictions.

Smart charging is a power management technology used in smart devices such as smart phones, computers and battery packs to provide shorter charging times for these devices. By utilising smart charging ICs, smart devices boost the level of power to be delivered and thus charge the batteries of the smart devices at faster speeds, thereby shortening the overall charging time. Smart charging ICs also gauge various attributes of the batteries, such as the levels of charge and the thermal conditions of the batteries, and reduce the level of power delivered to the batteries when they are nearly full or getting overheated.

Motor control

Motor control ICs are used in modern motors where the speed and torque of the moveable parts of a machine need to be controlled. These motor control applications can be applied to a wide array of devices, from household items such as fans, to heavy industrial equipment such as forklifts and robots. Motor control application solutions are mainly focused on the ICs used on VFDs. VFDs are a type of motor controller that controls the speed and torque of an electric motor by varying the frequency and voltage of its power supply. By using VFDs, motors are able to save energy, control performance, reduce noise levels of the motor, and improve the lifespan of machines.

Customers of the motor control category are generally manufacturers of motors. Motor control solutions of the Group include applications for the controls of ceiling and vertical fans, electronically commutated fans, air-conditioning systems, electric cars and bikes, robotic arms, pumps, washing machines, compressors, sewing machines, industrial power tools such as electric picks, and medical power tools such as drills.

RF power

RF, or radio-frequency, is widely used in the transmission of signals, and has a long-distance transmission capacity. RF is widely used in the fields of wireless communication.

RF power means the power supply devices which are used to generate and stabilise RF power. RF power equipment is generally composed of a RF signal source, a RF power amplifier (which is an electronic device that provides power gain) and an attenuator (a device that reduces the power of a signal without distorting its waveform), and a receiver (such as those found on the rooftops of buildings). The Group's RF power products are used in cable television (which is a system of delivering television programming to subscribers by RF signals transmitted through cables), and broadband networks, such as fibre to the home (FTTH, where the fibre optic cable carries the RF signal to the domestic home) and fibre to the building (FTTB, where the fibre optic cable carries the RF signal to a building). Our customers in the RF power category are generally engaged in broadcasting and signal transmissions, and include operators of television and radio broadcasting.

LED lighting

LED lighting systems utilise LEDs, or light emitting diodes, to provide energy efficient, aesthetic and long-life lighting solutions. LED lighting solutions are cost-effective and have a wide range of applications and can be used indoors, outdoors, and for special lighting effects, such as spot-lights or stage lighting.

An LED lamp or bulb is typically comprised of several components, including the LED which acts as light source, the LED driver IC that regulates power to the LED, reflector cups that refract and reflect the light, and the lens that focuses the light beams.

LED application design capabilities is considered to be well developed and mature. One of our main design applications for LED lighting systems was to provide dimming features for LED lamps or bulbs. Although it appears simple to design a dimmer for lighting systems, it is in fact a challenge as LEDs and traditional incandescent lamps operate very differently. If not done correctly, the dimmer will cause instability in the electrical current, which may cause flickering in the LED lamp or bulb, and affect its dimming range and performance. Our years of experience in and familiarity with this product category enable us to provide fast and comprehensive application solutions for our LED lighting customers.

Sensors and automation

Sensors are used to detect changes or events in the environment. When the sensor detects a change, it provides a corresponding output to the device to meet requirements of data and signal transmission, processing, storage, display, recording and control of information. There are many kinds of sensors, which are used to measure, among other things, force, distance, temperature, sound, light, electrical currents, magnetic fields.

Our application solutions for sensor ICs are coupled together with automation solutions that assist the customer's product in automatically detecting and reacting to various circumstantial changes in the environment. The Group provides application solutions for our radar sensors to be used on (i) automobile vehicles to assist drivers with parking and provide auto-drive functions; (ii) unmanned aerial drones in maintaining stability of flight and avoiding obstacles; (iii) security systems that link with videos to detect, recognise and track moving objects; (iv) traffic monitoring systems to measure speed of moving vehicles and to monitor traffic congestion; and (v) smart lighting systems that have motion sensing. We also provide application solutions for pressure sensors to be used in smart phones and smart watches for detecting altitude.

3. FINANCIAL REVIEW

Revenue

Revenue for the Period is approximately US\$36,691,000 as compared to approximately US\$30,580,000 for the Preceding Period, which represents an increase of approximately 19.98%. This is mainly attributed to the growth of business of the mobile devices and smart charging category.

Cost of sales

Cost of sales for the Period is approximately US\$32,861,000 as compared to approximately US\$26,440,000 for the Preceding Period, which represents an increase of approximately 24.29%. Cost of sales mainly comprised of (i) material costs; (ii) staff costs; and (iii) transportation and logistics costs. Our material costs which represented our procurement costs of ICs, which formed the largest component of our cost of sales. The increase is in line with the increase in revenue.

Gross profit and gross profit margin

For the Period, the Group recorded gross profit of approximately US\$3,830,000, as compared to US\$4,140,000 for the Preceding Period, a decrease of approximately US\$310,000 is primary attributable to the fact that we generated lower gross profit for mobile devices and smart charging from the sales of application solution of smart watch and IoT module. The Group recorded an overall gross profit margin of approximately 10.4% and 13.5% for the Period and the Preceding Period, respectively.

Selling and distribution expenses

For the Period, the Group recorded selling and distribution expenses of US\$708,000, as compared to US\$714,000 for the Preceding Period, a decrease of approximately US\$6,000 is noted. Selling and distribution expenses accounted for approximately 1.9% and 2.3% of revenue for the Period and the Preceding Period, respectively.

General and administration expenses

For the Period, the Group recorded general and administration expenses of US\$949,000, as compared to US\$1,191,000 for the Preceding Period, a decrease of approximately US\$242,000 as we recorded from exchange loss to exchange gain. General and administration expenses accounted for 2.6% and 3.9% of revenue for the Period and the Preceding Period, respectively. For the Period, general and administration expenses mainly attributed to staff cost of approximately US\$1,125,000 (Preceding Period: US\$989,000), operating lease expenses of Nil (Preceding Period: US\$189,000) and, depreciation of approximately US\$235,000 (Preceding Period: US\$24,000).

Provision for allowance for expected credit loss on trade receivables

The Group recorded provision for allowance for expected credit loss on trade receivables of Nil and US\$65,000 for the Period and the Preceding Period respectively. Provision for allowance for expected credit loss on trade receivables accounted for approximately 0.2% of revenue for the Preceding Period.

Listing expenses

The Group recorded listing expenses of approximately US\$1,154,000 and US\$1,265,000 for the Period and the Preceding Period respectively. Listing expenses accounted for approximately 3.1% and 4.1% of revenue for the Period and the Preceding Period.

Finance costs

For the Period, the Group recorded finance costs of approximately US\$525,000, as compared to US\$397,000 for the Preceding Period, an increment of approximately US\$128,000 is noted. For the Period, finance costs accounted for approximately 1.4% of the total revenue (Preceding Period: 1.3%). The Group's finance costs primarily represented our interest expenses incurred for short-term bank loans and the use of our trade financing facilities.

Profit before income tax

The Group recorded profit before income tax of approximately US\$656,000 and loss before income tax of approximately US\$548,000 for the Period and the Preceding Period respectively.

The Group recorded profit before income tax (excluding listing expenses) of approximately US\$1,810,000 and US\$1,813,000 for the Period and the Preceding Period respectively.

Income tax expenses

During the Period, the Group's income tax expenses comprised provision for Hong Kong Profits Tax and Enterprise Income Tax.

The effective tax rate of the Group is approximately 38.1% and 57.1% for the Period and the Preceding Period respectively. The effective tax rate of the Group excluding listing expenses is approximately 13.8% and 17.3% respectively.

Profit for the period

The Group recorded profit for the period attributable to shareholders of the Company of approximately US\$406,000 and US\$235,000 for the Period and the Preceding Period respectively.

The Group recorded profit for the period (excluding listing expenses) attributable to shareholders of the Company approximately US\$1,560,000 and US\$1,500,000 for the Period and the Preceding Period respectively.

Net current assets

The Group's net current assets decreased by approximately US\$511,000 from approximately US\$12,101,000 as at 31 December 2018 to approximately US\$11,590,000 as at 30 June 2019. The decrease was mainly due to (i) increase in inventories of approximately US\$2,786,000; (ii) increase in trade and bill receivables of approximately US\$3,047,000, partially offset by (i) increase in trade payables of approximately US\$6,739,000; (ii) increase in bank borrowings of approximately US\$821,000; and (iii) increase in lease liabilities of approximately US\$428,000.

Indebtedness**Bank borrowings**

As at 30 June 2019, our bank loans of approximately US\$2,131,000, was secured by (i) assignments of over our life insurance policies; and (ii) unlimited personal guarantees provided by Mr. Lam Keung, which was released upon Listing.

As at 31 December 2018, our bank loans of approximately US\$1,310,000, was secured by (i) assignments of over our life insurance policies; and (ii) unlimited personal guarantees provided by one of our directors, Mr. Lam Keung.

Lease liabilities

As at 30 June 2019, the Group had current and non-current lease liabilities of approximately US\$880,000 which represented the outstanding lease liabilities in respect of the leases of our office and warehouses upon the adoption of HKFRS 16 from 1 January 2019.

Banking facilities

As at 30 June 2019, the total banking facilities granted to the Group amounted to approximately US\$13,000,000, of which approximately US\$200,000 of our banking facilities as at 30 June 2019 were not utilised, which were committed, unrestricted and could be drawn down at any time.

As at 31 December 2018, the total banking facilities granted to the Group amounted to approximately US\$10,500,000, of which approximately US\$200,000 of our banking facilities as at 31 December 2018 were not utilised, which were committed, unrestricted and could be drawn down at any time.

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 2019, the total number of employees of the Group (excluding Directors) was approximately 105 (31 December 2018: approximately 99). 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 2019 and 31 December 2018, life insurance policy deposits were pledged to a bank to secure bills payables and bank borrowings granted to the Group, further details are disclosed in notes 10, 12 and 14 to the condensed consolidated interim financial statements in this report.

Commitments

At 30 June 2019 and 31 December 2018, the Group had no material capital commitment.

Capital structure

During the Period, there has been no change in capital structure of the Company. The capital of the Company comprises ordinary shares and capital reserves.

Gearing ratio

Our gearing ratio, which is calculated by total debts (i.e. bank borrowings) divided by total equity, was approximately 15.4% and 9.7% as at 30 June 2019 and 31 December 2018 respectively. Bank borrowings of the Group were US\$1,310,000 and US\$2,131,000 as at 31 December 2018 and 30 June 2019 respectively. Total equity of the Group were US\$13,512,000 and US\$13,879,000 as at 31 December 2018 and 30 June 2019 respectively.

Future plans for material investments and capital assets

Save as disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 29 June 2019, the Group did not have other plans for material investments and capital assets as at 30 June 2019.

Use of proceeds from share offer

The net proceeds from the Share Offer received by the Company, after deducting related underwriting fees and estimated expenses payable by the Company in connection with the Share Offer were approximately HK\$78.8 million. As the Listing Date is after 30 June 2019, the net proceeds from the Share Offer had not been received by the Company as at 30 June 2019. The net proceeds, upon receipt by the Company after the Listing Date, have been deposited at a bank and will be applied in the manners consistent with the use of proceeds as disclosed in the section headed “Future Plans and Use of Proceeds” of the Prospectus. From the Listing Date to the date of this report, the Group has not utilised any of the net proceeds from the Share Offer.

Contingent liabilities

Save as disclosed in the section headed “Indebtedness” in this section, as at 31 December 2018 and 30 June 2019, 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 2019 (Six months ended 30 June 2018: Nil).

Events after the reporting period

Events after the reporting period are more particularly delineated in note 17 to the condensed consolidated interim financial statements in this report.

4. FUTURE PROSPECT

Looking forward to the second half of 2019, amid the US-China trade war, global economy would be challenging, yet the management is confident that steady growth could be achieved by the Group. As 5G is rolling out in China in the second half of 2019, the mobile devices and smart charging category will continue to contribute to our business growth. The management will monitor the economic and technological development closely and formulate an appropriate business plan, in order to enhance the development of our Group.

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 report, save as disclosed below, the Company has complied with the code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules:

A.2.1 Roles of chairman and chief executive officer

Code Provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lam Keung is both our Chief Executive Officer and Chairman. Our Board believes that vesting the roles of both Chief Executive Officer and Chairman in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within our Group. Our Group considers that the balance of power and authority of the present arrangement will not be impaired as the Board comprises five other experienced and high-caliber individuals including two other executive Directors and three independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of our Group, the Board will make consultations with appropriate Board committees and senior management. Therefore, our Directors consider that the present arrangement is beneficial to and in the interest of our Company and our Shareholders as a whole and the deviation from Code A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors in July 2019.

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 report.

REVIEW OF FINANCIAL INFORMATION BY THE AUDIT COMMITTEE

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 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.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

Since the Company's Shares were not listed on the Stock Exchange as at 30 June 2019, Divisions 7 and 8 of Part XV of the SFO and section 352 of the SFO were not applicable to the Company, the Directors and chief executive of the Company as at 30 June 2019.

As at the date of this report, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in the Shares of the Company:

| Name | Capacity/Nature of interest | Number of Shares⁽⁴⁾ | Approximate percentage of shareholding |
|------------------------------------|---|---------------------------------------|---|
| Mr. Lam Keung ⁽¹⁾⁽²⁾ | Interest in a controlled corporation/ Person acting in concert | 600,000,000 (L) | 75.0% |
| Mr. Qing Haodong ⁽¹⁾⁽³⁾ | Interest in a controlled corporation/ Person acting in concert | 600,000,000 (L) | 75.0% |

Notes:

- (1) Pursuant to a confirmatory deed, Mr. Lam Keung, Mr. Qing Haodong and Ms. Feng Tao (spouse of Mr. Qing Haodong) have acknowledged and confirmed, among other things, that they are acting in concert with each other. Accordingly, each of Mr. Lam Keung, Mr. Qing Haodong and Ms. Feng Tao is deemed to be interested in all the Shares in which any of them is interested under the SFO.
- (2) P. Grand (BVI) Ltd. is 100% owned by Mr. Lam Keung, and Mr. Lam Keung is deemed to be interested in all the Shares held by P. Grand (BVI) Ltd under the SFO.
- (3) Kingtech (BVI) Ltd. is 100% owned by Ms. Feng Tao, and Ms. Feng Tao is deemed to be interested in all the Shares held by Kingtech under the SFO.
- (4) The letter "L" denotes the person's long position in the Shares.

Save as disclosed above, as at the date of this report, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be 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 the Model Code.

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

Since the Company's Shares were not listed on the Stock Exchange as at 30 June 2019, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable to the Company and the substantial shareholders as at 30 June 2019.

To the best of the directors' knowledge, as at the date of this report, so far as the Directors are aware, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

| Name | Capacity/Nature of interest | Number of Shares⁽⁴⁾ | Approximate percentage of shareholding |
|-----------------------------------|---|---------------------------------------|---|
| P. Grand (BVI) Ltd. | Beneficial owner | 540,000,000 (L) | 67.5% |
| Ms. Feng Tao ⁽¹⁾⁽²⁾⁽³⁾ | Interest in a controlled corporation/ Person acting in concert | 600,000,000 (L) | 75% |
| Kingtech (BVI) Ltd. | Beneficial owner | 60,000,000 (L) | 7.5% |

Notes:

- (1) Pursuant to a confirmatory deed, Mr. Lam Keung, Mr. Qing Haodong and Ms. Feng Tao (spouse of Mr. Qing Haodong) have acknowledged and confirmed, among other things, that they are acting in concert with each other. Accordingly, each of Mr. Lam Keung, Mr. Qing Haodong and Ms. Feng Tao is deemed to be interested in all the Shares in which any of them is interested under the SFO.
- (2) P. Grand (BVI) Ltd. is 100% owned by Mr. Lam Keung, and Mr. Lam Keung is deemed to be interested in all the Shares held by P. Grand (BVI) Ltd. under the SFO.
- (3) Kingtech (BVI) Ltd. is 100% owned by Ms. Feng Tao, and Ms. Feng Tao is deemed to be interested in all the Shares held by Kingtech under the SFO.
- (4) The letter "L" denotes the person's long position in the Shares.

Save as disclosed above, as at the date of this report, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the Shareholders passed on 21 June 2019 (the “**Adoption Date**”), the Company has adopted the share option scheme (the “**Share Option Scheme**”), for the purpose of giving the eligible participants as incentives or rewards to recognize and acknowledge their contributions or potential contributions to the Company and/or any of the subsidiaries. The Share Option Scheme will provide eligible participants an opportunity to have a personal stake in the Company with the view to motivate the eligible participants to optimize their performance efficiency for the benefits of the Company and/or of the subsidiaries; and attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Company and/or of the subsidiaries.

Further details of the Share Option Scheme are set in the paragraph headed “Share Option Scheme” under the section headed Statutory and General Information” of the Prospectus.

Since the Adoption Date and up to the date of this interim report, no options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

CHANGES IN BIOGRAPHICAL DETAILS OF DIRECTORS

The Company is not aware of any changes in the biographical details of the Directors that need to be disclosed pursuant to Rules 13.51(2) and 13.51(B) of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

At the latest practicable date prior to the issue of this report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Company maintained sufficient public float as required under the Listing Rules throughout the Period.

PUBLICATION OF RESULTS ON WEBSITES

Pursuant to Appendix 16 to the Listing Rules, the results of the Company will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.conteltechnology.com) in due course.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019 – unaudited

| | Notes | Six months ended | |
|--|-------|---|---|
| | | 30 June 2019 US\$'000 (Unaudited) | 30 June 2018 US\$'000 (Unaudited) |
| Revenue | 5 | 36,691 | 30,580 |
| Cost of sales | | (32,861) | (26,440) |
| Gross profit | | 3,830 | 4,140 |
| Other income | 5 | 162 | 40 |
| Selling and distribution expenses | | (708) | (714) |
| General and administrative expenses | | (949) | (1,191) |
| Provision for allowance for expected credit loss on trade receivables | | — | (65) |
| Listing expenses | | (1,154) | (1,265) |
| Finance costs | 6 | (525) | (397) |
| Profit before income tax | 7 | 656 | 548 |
| Income tax expense | 8 | (250) | (313) |
| Profit for the period attributable to shareholders of the Company | | 406 | 235 |
| | | US cents | US cents |
| Earnings per share attributable to shareholders of the Company | 9 | | |
| Basic and diluted | | 0.068 | 0.039 |

NON-HKFRS MEASURES

The following table sets forth a reconciliation between our profit for the period as presented in accordance with HKFRS, and our non-HKFRS adjusted profit:

| | Six months ended | |
|--|---|---|
| | 30 June 2019 US\$'000 (Unaudited) | 30 June 2018 US\$'000 (Unaudited) |
| Profit for the period | 406 | 235 |
| Adjusted for: | | |
| Listing expenses | 1,154 | 1,265 |
| Non-HKFRS adjusted profit for the period | 1,560 | 1,500 |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019 – unaudited

| | Six months ended | |
|--|---|---|
| | 30 June 2019 US\$'000 (Unaudited) | 30 June 2018 US\$'000 (Unaudited) |
| Profit for the period | 406 | 235 |
| Other comprehensive income/(expense) <i>Item that may be reclassified to profit or loss in subsequent periods:</i> | | |
| Exchange differences arising on translating foreign operations | 1 | (42) |
| Other comprehensive income/(expense) for the period attributable to the owners of the Company | 1 | (42) |
| Total comprehensive income for the period | 407 | 193 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

| | Notes | 30 June 2019 US\$'000 (Unaudited) | 31 December 2018 US\$'000 (Audited) |
|--|-------|--|--|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 956 | 113 |
| Intangible assets | | 124 | 161 |
| Goodwill | | 264 | 264 |
| Life insurance policy deposits | 10 | 1,397 | 873 |
| | | <u>2,741</u> | <u>1,411</u> |
| Current assets | | | |
| Inventories | | 9,333 | 6,547 |
| Trade and bills receivables | 11 | 22,054 | 19,007 |
| Prepayments, deposits and other receivables | | 4,521 | 3,394 |
| Amounts due from related parties | 16 | 8 | 8 |
| Pledged bank deposits | 12 | 127 | 300 |
| Cash and cash equivalents | 12 | 3,672 | 2,874 |
| | | <u>39,715</u> | <u>32,130</u> |
| Current liabilities | | | |
| Trade and bills payables | 13 | 23,626 | 16,887 |
| Accruals, receipts in advance and other payables | | 1,369 | 1,398 |
| Lease liabilities | | 428 | — |
| Bank borrowings | 14 | 2,131 | 1,310 |
| Tax payable | | 571 | 434 |
| | | <u>28,125</u> | <u>20,029</u> |
| Net current assets | | <u>11,590</u> | <u>12,101</u> |
| Total assets less current liabilities | | <u>14,331</u> | <u>13,512</u> |
| Non-current liabilities | | | |
| Lease liabilities | | 452 | — |
| | | <u>452</u> | <u>—</u> |
| NET ASSETS | | <u>13,879</u> | <u>13,512</u> |
| EQUITY | | | |
| Share capital | 15 | — [#] | — [#] |
| Reserves | | 13,879 | 13,512 |
| TOTAL EQUITY | | <u>13,879</u> | <u>13,512</u> |

[#] Item with value below US\$1,000

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 – unaudited

Equity attributable to owners of the Company

| | Share capital US\$'000 | Other reserve US\$'000 | Merger reserve US\$'000 | Statutory surplus reserve US\$'000 | Translation reserve US\$'000 | Retained profits US\$'000 | Total US\$'000 |
|---|---------------------------|---------------------------|----------------------------|---------------------------------------|---------------------------------|------------------------------|-------------------|
| At 1 January 2019 (Audited) | — [#] | 10,076 | (7,021) | 449 | (38) | 10,046 | 13,512 |
| Impact on initial application of HKFRS 16 | — | — | — | — | — | (40) | (40) |
| Adjusted balance at 1 January 2019 | — | 10,076 | (7,021) | 449 | (38) | 10,006 | 13,472 |
| Profit for the period | — | — | — | — | — | 406 | 406 |
| Foreign currency translation differences for foreign operations | — | — | — | — | 1 | — | 1 |
| Total comprehensive income for the period | — | — | — | — | 1 | 406 | 407 |
| At 30 June 2019 (Unaudited) | — [#] | 10,076 | (7,021) | 449 | (37) | 10,412 | 13,879 |
| At 1 January 2018 (Audited) | — [#] | 10,076 | (7,021) | 436 | 27 | 7,448 | 10,966 |
| Profit for the period | — | — | — | — | — | 235 | 235 |
| Foreign currency translation differences for foreign operations | — | — | — | — | (42) | — | (42) |
| Total comprehensive income/ (expense) for the period | — | — | — | — | (42) | 235 | 193 |
| Appropriation to statutory surplus reserve | — | — | — | 14 | — | (14) | — |
| At 30 June 2018 (Unaudited) | — [#] | 10,076 | (7,021) | 450 | (15) | 7,669 | 11,159 |

[#] Item with value below US\$1,000

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019 – unaudited

| | Six months ended | |
|---|---|---|
| | 30 June 2019 US\$'000 (Unaudited) | 30 June 2018 US\$'000 (Unaudited) |
| | Notes | |
| Cash flows from operating activities | | |
| Profit before income tax | 656 | 548 |
| Adjustments for: | | |
| Amortisation of life insurance policy deposits | — | 23 |
| Amortisation of intangible assets | 37 | 36 |
| Bank interest income | (6) | (1) |
| Depreciation of property, plant and equipment | 22 | 24 |
| Depreciation of rights of use assets | 213 | — |
| Imputed interest income on life insurance policy deposits | — | (8) |
| Interest expenses | 525 | 397 |
| Allowance for expected credit loss on trade receivables | — | 65 |
| Operating cash flows before working capital changes | 1,447 | 1,084 |
| (Increase) in inventories | (2,786) | (736) |
| (Increase)/decrease in trade and bills receivables | (3,047) | 2,250 |
| (Increase) in prepayments, deposits and other receivables | (1,127) | (218) |
| Increase in trade and bills payables | 6,739 | 1,384 |
| (Decrease)/increase in accruals, receipts in advance and other payables | (29) | 606 |
| Net cash generated from operations | 1,197 | 4,370 |
| Income tax paid | (113) | (8) |
| Net cash generated from operating activities | 1,084 | 4,362 |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment | (29) | (6) |
| Payment of life insurance policy deposits | (524) | (525) |
| Decrease in amounts due from related parties | — | 42 |
| Decrease/(increase) in pledged bank deposits | 173 | (295) |
| Interest received | 6 | 1 |
| Net cash used in investing activities | (374) | (783) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019 – unaudited

| | Six months ended | |
|---|-------------------------|--------------------|
| <i>Notes</i> | 30 June 2019 | 30 June 2018 |
| | US\$'000 | US\$'000 |
| | (Unaudited) | (Unaudited) |
| Cash flow from financing activities | | |
| Increase in amounts due to related parties | — | 40 |
| Proceeds from borrowings | 2,657 | 1,677 |
| Repayment of borrowings | (1,822) | (4,958) |
| Repayment of lease liabilities | (204) | — |
| Interest paid | (525) | (397) |
| | 106 | (3,638) |
| Net cash generated from/(used in) financing activities | | |
| | 816 | (59) |
| Net increase/(decrease) in cash and cash equivalents | | |
| | 2,874 | 1,629 |
| Cash and cash equivalents at beginning of the period | | |
| Effect of foreign exchange rate changes | (18) | 8 |
| | 3,672 | 1,578 |
| Cash and cash equivalents at end of the period | | |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Corporate Information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 August 2016. The registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is Unit No. A, 13th Floor, Block 1, Leader Industrial Centre, Nos.188-202 Texaco Road, Tsuen Wan, New Territories, Hong Kong.

On 16 July 2019, the Company listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company while its principal subsidiaries are mainly engaged in the provision of customised reference designs which are bundled together with the sale of integrated circuits ("**ICs**") and other electronic components as a package to customers in both Hong Kong and the People's Republic of China (the "**PRC**").

These unaudited condensed consolidated interim financial statements (the "**interim financial statements**") are presented in United States dollars ("**US\$**"), unless otherwise stated. These interim financial statements were approved for issuance by the Board of Directors on 30 August 2019.

2. Basis of Preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2019 (the "**Period**") 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 as well as the applicable disclosure requirement of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018 as presented in the share offer prospectus of the Company dated 29 June 2019 (the "**Prospectus**"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**").

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

2. Basis of Preparation (Continued)

2.1 New and amended standard adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had applied for the first time, the following amendment to the HKFRSs:

| | | Effective for annual periods beginning on or after |
|-------------------------|---|---|
| HKFRS 16 | Leases | 1 January 2019 |
| HK(IFRIC) 23 | Uncertainty over income tax treatments | 1 January 2019 |
| HKFRS 9 (Amendments) | Prepayment features with negative compensation | 1 January 2019 |
| HKAS 28 (Amendments) | Long-term interests in associates and joint venture | 1 January 2019 |
| HKAS 19 (Amendments) | Plan amendment, curtailment or settlement | 1 January 2019 |
| Amendment to the HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle | 1 January 2019 |

None of which has significant financial impact to the Group except for HKFRS 16.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sale and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

2. Basis of Preparation (Continued)

2.1 New and amended standard adopted by the Group (Continued)

HKFRS 16 “Leases” (Continued)

The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group represents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

There are recognition exemptions for short-term leases and leases of low-value items. Short-term leases are leased with a lease term of 12 months or less at the commencement date. Low-value items are leases with insignificant value. Payments associated with short-term leases and leases of low value items are recognised on a straight-line basis as expenses in profit or loss.

The Group has adopted HKFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing standards are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate.

Each lease payment is allocated between the liability and finance cost. The finance cost will be charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

2. Basis of Preparation (Continued)

2.1 New and amended standard adopted by the Group (Continued)

HKFRS 16 “Leases” (Continued)

| | <i>US\$'000</i> |
|--|-----------------|
| Operating lease commitments disclosed as at 31 December 2018 | 1,172 |
| Discounted using the lessees' incremental borrowing rate at the date of initial application, lease liabilities recognised as at 1 January 2019 | <u>(88)</u> |
| | 1,084 |
| Accumulated depreciation recognised as at 1 January 2019 | <u>(40)</u> |
| Right-of-use assets recognised as at 1 January 2019 | <u>1,044</u> |

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid rental expenses relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

| | 31 December 2018 <i>US\$'000</i> | HKFRS 16 Contract Capitalisation <i>US\$'000</i> | 1 January 2019 <i>US\$'000</i> |
|--------------------------------|--|---|---|
| Non-current assets | | | |
| Right-of-use assets | — | 1,044 | 1,044 |
| Current liabilities | | | |
| Lease liabilities | — | (416) | (416) |
| Non-current liabilities | | | |
| Lease liabilities | — | (668) | (668) |
| Equity | | | |
| Retained profits | 8,608 | (40) | 8,568 |

2. Basis of Preparation *(Continued)*

2.2 Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. Estimates

The preparation of unaudited condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

4. Segment Information

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by executive directors of the Company in order to allocate resources and assess performance of the segment. During the Period, executive directors received and reviewed information on the performance of the Group as a whole. Accordingly, it is determined that the Group has only one single operating segment, which is determined as sale of ICs including bundled services, for the purpose of allocating resources and assessing performance.

4. Segment Information (Continued)

The Company is an investment holding company and the principal place of the Group's operation is in Hong Kong and the PRC. For the purpose of geographical segment information disclosures under HKFRS 8, the Group regarded Hong Kong as its place of domicile. All the Group's revenue from external customers is presented based on the location of the operating subsidiaries and the Group's non-current assets (excluding life insurance policy deposits) is presented based on the location of assets as follows:

| | Six months ended | |
|---------------------------------------|--|---|
| | 30 June 2019 <i>US\$'000</i> (Unaudited) | 30 June 2018 <i>US\$'000</i> (Unaudited) |
| Revenue recognised at a point in time | | |
| Hong Kong | 21,964 | 15,670 |
| The PRC | 14,727 | 14,910 |
| | 36,691 | 30,580 |
| | | |
| | 30 June 2019 <i>US\$'000</i> (Unaudited) | 31 December 2018 <i>US\$'000</i> (Audited) |
| Non-current assets | | |
| Hong Kong | 404 | 326 |
| The PRC | 940 | 212 |
| | 1,344 | 538 |

5. Revenue and Other Income

Revenue from the Group's principal activities, which is also the Group's turnover, represents the income from sale of ICs including the bundled services delivered to the customers and recognised at a point in time. Revenue and other income recognised during the Period are as follows:

| | Six months ended | |
|---|--|--|
| | 30 June 2019 <i>US\$'000</i> (Unaudited) | 30 June 2018 <i>US\$'000</i> (Unaudited) |
| Revenue | 36,691 | 30,580 |
| Other income | | |
| Bank interest income | 6 | 1 |
| Exchange gain, net | 133 | — |
| Imputed interest income on life insurance policy deposits | — | 8 |
| Others | 23 | 31 |
| | 162 | 40 |

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sale of ICs including the bundled services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations that had an original expected duration of one year or less.

6. Finance Costs

| | Six months ended | |
|-----------------------------------|--|--|
| | 30 June 2019 <i>US\$'000</i> (Unaudited) | 30 June 2018 <i>US\$'000</i> (Unaudited) |
| Interest on lease | 22 | — |
| Interest on bills payables | 439 | 292 |
| Interest on discounted bills | 50 | 55 |
| Interest on short-term bank loans | 14 | 50 |
| | 525 | 397 |

7. Profit Before Income Tax

| | Six months ended | |
|---|--|--|
| | 30 June 2019 <i>US\$'000</i> (Unaudited) | 30 June 2018 <i>US\$'000</i> (Unaudited) |
| Auditor's remuneration | — | 9 |
| Amortisation of intangible assets | 37 | 36 |
| Cost of inventories recognised as expenses | 32,861 | 26,440 |
| Depreciation of property, plant and equipment | 235 | 24 |
| Employee benefit expenses (including director's remuneration) | | |
| Salaries and allowances | 964 | 852 |
| Bonus | — | 6 |
| Pension scheme contributions — Defined contribution plan | 161 | 131 |
| Exchange gain, net | 133 | — |
| Operating lease expenses | — | 189 |
| Allowances for expected credit loss on trade receivables | — | 65 |
| Impairment loss (reversal thereof) on inventories, net included in cost of inventories recognized as expenses | — | (2) |

8. Income Tax Expense

| | Six months ended | |
|----------------------------|--|--|
| | 30 June 2019 <i>US\$'000</i> (Unaudited) | 30 June 2018 <i>US\$'000</i> (Unaudited) |
| Current tax expenses | | |
| — Hong Kong Profits Tax | 229 | 242 |
| — PRC Corporate Income Tax | 21 | 71 |
| | 250 | 313 |

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Hong Kong Profits Tax was calculated at the rate of 16.5% based on the HK Group Companies' estimated assessable profits arising in Hong Kong subsidiaries for the Preceding Period. The two-tiered profits tax regime (i.e. the first HK\$2.0 million of assessable profits will be taxed at 8.25%, and assessable profits above HK\$2.0 million will be taxed at 16.5%) is applicable to our HK Group Companies for the assessment year commencing on or after 1 April 2018.

The provision for PRC Corporate Income Tax is calculated at the standard rate of 25% on the estimated assessable income as determined in accordance with the relevant income tax rules and regulations of the PRC.

9. Earnings Per Share Attributable to Shareholders of the Company

The calculation of the basic earnings per share amounts is based on the following data:

| | Six months ended | |
|--|--|--|
| | 30 June 2019 <i>US\$'000</i> (Unaudited) | 30 June 2018 <i>US\$'000</i> (Unaudited) |
| Profit attributable to shareholders of the Company | 406 | 235 |
| Weighted average number of ordinary shares in issue during the period | 600,000,000 | 600,000,000 |

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

On 21 June 2019, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000. Conditional upon the crediting of the share premium account of the Company as a result of the allotment and issue of the offer shares pursuant to the share offer upon Listing, our Directors are authorised to capitalise a sum of HK\$5,999,000 and apply such sum in paying up in full at par a total of 599,900,000 shares for allotment and issue to the shareholders immediately prior to the issue of shares under the share offer as to 539,910,000 shares to P.Grand (BVI) Ltd. and 59,990,000 shares to Kingtech (BVI) Ltd.

The number of shares used for the purpose of calculating basic earnings per share has been retrospectively adjusted for the issue of shares during the capitalisation issue of shares (note 15) as if the issuance of shares had occurred on 1 January 2018.

No adjustment has been made to the basic earnings per share amounts presented for the period in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the period.

10. Life Insurance Policy Deposits

In prior years, the Group entered into life insurance policies (the “**Policy**”) to insure one of the directors of the Company, Mr. Lam Keung and one of the senior management of the Group, Ms. Cheng Yu Pik. Under the Policy, the beneficiary and policy holder is the Group and the total insured sum was US\$3,991,000 as at 31 December 2018 and 30 June 2019. At inception of the Policy, the Group paid upfront payments of US\$264,960 and US\$260,005 during the year ended 31 December 2018. The Group can terminate the Policy at any time and can receive cash back based on the net nominal account value of the Policy at the date of withdrawal. Interest is earned at interest rates of at least those guaranteed by the insurer.

The premium charges and prepaid premium will be amortised to profit or loss through the expected life of the Policy of 38 years to 43 years. As at 31 December 2018 and 30 June 2019, the Policy was pledged to a bank to secure bills payables (note 12) and bank borrowings (note 14) granted to the Group.

11. Trade and Bills Receivables

| | 30 June 2019 US\$'000 (Unaudited) | 31 December 2018 US\$'000 (Audited) |
|---|--|--|
| Trade receivables | 20,673 | 18,347 |
| Less: allowance for expected credit loss on trade receivables | (91) | (91) |
| Trade receivables, net | 20,582 | 18,256 |
| Bills receivables | 1,472 | 751 |
| | 22,054 | 19,007 |

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period granted is based on the historical trading and payment records of each customer, generally not more than four months. Extended credit terms may be granted for some major long-term customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

| | 30 June 2019 US\$'000 (Unaudited) | 31 December 2018 US\$'000 (Audited) |
|---------------|--|--|
| 1-30 days | 8,026 | 6,780 |
| 31-90 days | 8,711 | 6,926 |
| 91-120 days | 1,472 | 2,600 |
| Over 120 days | 2,373 | 1,950 |
| | 20,582 | 18,256 |

11. Trade and Bills Receivables (Continued)

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

| | 30 June 2019 US\$'000 (Unaudited) | 31 December 2018 US\$'000 (Audited) |
|---------------|--|--|
| 1–30 days | 244 | 549 |
| 31–90 days | 287 | 202 |
| 91–120 days | 213 | — |
| Over 120 days | 728 | — |
| | 1,472 | 751 |

12. Pledged Bank Deposits and Cash and Cash Equivalents

| | 30 June 2019 US\$'000 (Unaudited) | 31 December 2018 US\$'000 (Audited) |
|--------------------------------|--|--|
| Cash and cash equivalents: | | |
| Cash in hand and bank balances | 3,672 | 2,874 |
| Pledged bank deposits | 127 | 300 |

At 30 June 2019 and 31 December 2018, the cash and bank balances of the Group denominated in RMB amounted to approximately US\$261,000 and US\$349,000 respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earned interest at floating rates based on daily bank deposit rates. The bank balances were deposited with creditworthy banks with no recent history of default.

At 30 June 2019 and 31 December 2018, the Group's bank deposits of US\$127,000 and US\$300,000, respectively, pledged to secure the bills payables (note 11).

13. Trade and Bills Payables

| | 30 June 2019 US\$'000 (Unaudited) | 31 December 2018 US\$'000 (Audited) |
|----------------|--|--|
| Trade payables | 10,998 | 6,569 |
| Bills payables | 12,628 | 10,318 |
| | 23,626 | 16,887 |

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

| | 30 June 2019 US\$'000 (Unaudited) | 31 December 2018 US\$'000 (Audited) |
|---------------|--|--|
| 1–30 days | 7,518 | 3,798 |
| 31–90 days | 3,471 | 2,580 |
| 91–120 days | 2 | 127 |
| Over 120 days | 7 | 64 |
| | 10,998 | 6,569 |

At 31 December 2018 and 30 June 2019, all bills payables were secured by an assignment over the Policy (note 10), pledged bank deposits (note 12) and an unlimited personal guarantee executed by a director of the Company, Mr. Lam Keung. The guarantee was released upon listing.

14. Bank Borrowings

| | 30 June 2019 US\$'000 (Unaudited) | 31 December 2018 US\$'000 (Audited) |
|--|--|--|
| Current | | |
| Bank borrowings — secured (<i>note (a)</i>) | 736 | 969 |
| Discounted bills with recourse (<i>note (b)</i>) | 1,395 | 341 |
| | 2,131 | 1,310 |

Notes:

- (a) At 31 December 2018 and 30 June 2019, bank borrowings with carrying amount of approximately US\$969,000 and US\$736,000 respectively were secured by an assignment over the Policy (note 10) and an unlimited personal guarantee provided by a director of the Company, Mr. Lam Keung. Interest was charged at a rate of 4.0% and rate of 4.0% per annum as at 31 December 2018 and 30 June 2019, respectively. The guarantee was released upon Listing.
- (b) At 31 December 2018 and 30 June 2019, all borrowings from discounting of bills with recourse were secured by certain bills receivables of the Group with carrying amount of approximately US\$341,000 and US\$1,395,000, respectively (note 11). Interest is charged in the range from 5.4% to 6.8% per annum during the periods.

15. Share Capital

| | 30 June 2019 US\$ (Unaudited) | 31 December 2018 US\$ (Audited) |
|--|--|--|
| Issued and fully paid | | |
| 100,000 ordinary shares of HK\$0.01 each | 129 | 129 |

The Company was incorporated in the Cayman Islands on 16 August 2016 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of par value of HK\$0.01 each. Pursuant to the resolutions in writing of the sole shareholder passed on 21 June 2019, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000 divided into 2,000,000,000 shares of par value of HK\$0.01 each.

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

On 21 June 2019, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000. Conditional upon the crediting of the share premium account of the Company as a result of the allotment and issue of the offer shares pursuant to the share offer upon Listing, our Directors are authorised to capitalise a sum of HK\$5,999,000 and apply such sum in paying up in full at par a total of 599,900,000 shares for allotment and issue to the shareholders immediately prior to the issue of shares under the share offer as to 539,910,000 shares to P.Grand (BVI) Ltd. and 59,990,000 shares to Kingtech (BVI) Ltd.

15. Share Capital (Continued)

A summary of movements in the Company's share capital is as follows:

| | Number of shares in issue | Share capital US\$ (Unaudited) |
|---|--|---|
| At 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019 | 100,000 | 129 |

16. Related Party Disclosures

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

(a) Balances with related parties

| | <i>Notes</i> | 30 June 2019 US\$'000 (Unaudited) | 31 December 2018 US\$'000 (Audited) |
|---|--------------|--|--|
| Balances at the end of the period/year | | | |
| Advances from related companies | (i), (ii) | 8 | 8 |

Notes:

- (i) P. Grand (BVI) Ltd. and Kingtech (BVI) Ltd. are the related companies controlled by Mr. Lam and Mrs. Qing, respectively.
- (ii) Amounts due were unsecured, non-interest bearing and repayable on demand. Amounts will be settled prior to Listing.

(b) Compensation of key management personnel

| | Six months ended | |
|---|--|---|
| | 30 June 2019 US\$'000 (Unaudited) | 30 June 2018 US\$'000 (Unaudited) |
| Short-term employee benefits | 122 | 120 |
| Pension scheme contributions | 12 | 8 |
| Total compensation paid to key management personnel | 134 | 128 |

17. Events after the Reporting Period

The Company was listed on the Stock Exchange on 16 July 2019, gross proceeds of HK\$130 million was raised.

Upon Listing, personal guarantee provided by one of our Directors, Mr. Lam Keung, in respect of life insurance policy; bills payables and bank borrowings were released.

18. Approval of the Interim Condensed Consolidated Financial Statements

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 30 August 2019.