



TEM

TEM Holdings Limited
創新電子控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8346

2019/2020
First Quarterly Report

* For identification purpose only

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*This report, for which the directors (the “**Directors**”) of TEM Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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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

Non-Executive Director

Ms. Koay Lee Chern

Independent Non-Executive Directors

Mr. Ma Yiu Ho Peter

Mr. Lee Hon Man Eric

Mr. Cheung Wai Kuen

AUDIT COMMITTEE

Mr. Ma Yiu Ho Peter (*Chairman*)

Mr. Lee Hon Man Eric

Mr. Cheung Wai Kuen

NOMINATION COMMITTEE

Mr. Lee Hon Man Eric (*Chairman*)

Mr. Lau Man Tak

Mr. Vincent Ho Pang Cheng

Mr. Ma Yiu Ho Peter

Mr. Cheung Wai Kuen

REMUNERATION COMMITTEE

Mr. Cheung Wai Kuen (*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

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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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
China Construction Bank (Asia)
Corporation Limited
Nanyang Commercial Bank Limited

COMPANY'S WEBSITE

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

STOCK CODE

8346

FIRST QUARTERLY RESULTS

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 2019 together with the comparative unaudited figures for the corresponding period in 2018, as follows:

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

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2019

		For the three months ended 30 September	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
	<i>Notes</i>		
Revenue	3	24,567	26,545
Cost of sales		(21,272)	(21,925)
Gross profit		3,295	4,620
Other income	4	642	345
Selling and distribution costs		(683)	(753)
Administrative expenses		(5,347)	(5,920)
Other gains and losses	5	(373)	(66)
Interest expenses on lease liabilities		(5)	–
Loss before taxation		(2,471)	(1,774)
Income tax expenses	6	(162)	(123)
Loss for the period	7	(2,633)	(1,897)

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

		For the three months ended 30 September	
	Notes	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Other comprehensive expense			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences arising on translation to presentation currency		(77)	–
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(951)	(1,813)
Other comprehensive expense for the period		(1,028)	(1,813)
Total comprehensive expense for the period		(3,661)	(3,710)
Loss per share			
— Basic (HK cents)	9	(0.44)	(0.32)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2019

	Share capital	Share premium	Exchange reserve	PRC Statutory reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(note)		
At 1 July 2018 (audited)	6,000	66,340	(2,362)	2,742	66,357	139,077
Adjustment on adoption of HKFRS9	-	-	-	-	(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
At 1 July 2019 (audited)	6,000	66,340	(4,156)	2,742	55,068	125,994
Loss for the period	-	-	-	-	(2,633)	(2,633)
Exchange differences arising on translation to presentation currency	-	-	(77)	-	-	(77)
Exchange differences arising on translation of foreign operations	-	-	(951)	-	-	(951)
Total comprehensive expense for the period	-	-	(1,028)	-	(2,633)	(3,661)
At 30 September 2019 (unaudited)	6,000	66,340	(5,184)	2,742	52,435	122,333

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. 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 unaudited condensed 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 2019 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 unaudited condensed consolidated financial statements have been prepared under historical cost convention.

The preparation of the unaudited condensed consolidated financial statements in conformity with the HKFRS 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 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 2019, except the new revised HKFRSs as described below.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current period:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as disclosed below, the application of the new and amendments to HKFRSs in the current period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

2.1 Changes in accounting policies

The Group applied HKFRS 16 with a date of initial application on 1 July 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below. The Group has adopted HKFRS 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new and amended requirements with respect to lease accounting are therefore recognised in the opening statement of financial position on 1 July 2019.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 Changes in accounting policies (continued)

(a) Adjustments recognised on adoption of HKFRS 16

Prior to the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in the consolidated statement of profit or loss and other comprehensive income over the lease period on a straight-line basis. Upon adoption of HKFRS 16, the Group recognised 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 Group’s incremental borrowing rate as of 1 July 2019. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to the consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred using effective interest method.

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by certain items as set out in note 2.1(b). The right-of-use assets were recognised in the consolidated statement of financial position. Depreciation was charged on a straight-line basis over the shorter of the asset’s useful life or the lease term.

(b) Accounting policies adopted since 1 July 2019

Until the year ended 30 June 2019, payments made under operating leases were recognised as an expense on a straight-line basis over the lease term. From 1 July 2019 onwards, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 Changes in accounting policies (continued)

(b) Accounting policies adopted since 1 July 2019 (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets is recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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

Segment revenue

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

	For the three months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Manufacture and sale of wire/cable harnesses	22,450	21,951
Manufacture and sale of power supply cords assembled products	2,094	3,584
Trading of terminals, connectors and others	23	1,010
Revenue from contracts with customers and segments revenue	24,567	26,545

All the revenue from contracts with customers are recognised at point in time.

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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
The PRC	7,721	7,564
Asia Pacific region (excluding the PRC)	12,519	15,323
Western Europe	2,866	2,302
North and South America	1,461	1,356
	24,567	26,545

Information about major customers

Revenue from customers for the three months ended 30 September 2019 and for the corresponding periods in 2018 contributing over 10% of the Group's revenue are as follows:

	For the three months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Customer A	10,021	13,110
Customer B	*	2,882
Customer C	4,115	*
Customer D	3,225	*

* 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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Bank interest income	109	214
Government grant (note)	520	115
Others	13	16
	642	345

Note: The government grant represents a subsidy received by a subsidiary of the Company. In the opinion of the management of the Group, there was no unfulfilled condition or contingency relating to the grant.

5. OTHER GAINS AND LOSSES

	For the three months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Net exchange loss	(385)	(266)
Gain on disposal of property, plant and equipment	12	200
	(373)	(66)

6. INCOME TAX EXPENSES

	For the three months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Current tax:		
Malaysia corporate income tax	162	117
PRC Enterprise Income Tax ("EIT")	–	20
Deferred tax credit	–	(14)
	162	123

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX EXPENSES (continued)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax has been made as the group entities have no assessable profits for both periods.

Under the Law of the PRC on enterprise income tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%. Pursuant to the relevant law and regulation in the PRC, the PRC subsidiary is granted tax incentives as a High and New Technology Enterprise (高新技術企業) and is entitled to a concessionary tax rate of 15% for 3 years from 2018 to 2020.

No provision for PRC Enterprise Income Tax (“**EIT**”) has been made as the group entity has no assessable profits for the three months ended 30 September 2019.

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%.

The income tax rate applicable in Malaysia is 24% for both periods under review.

The income tax rate applicable in Singapore is 17% for both periods. No provision for Singapore corporate income tax has been made as the group entity has no assessable profits for both periods.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. LOSS FOR PERIOD

	For the three months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Loss for the period has been arrived at after charging:		
Staff Costs	8,049	6,835
Cost of inventories recognized as expense	13,130	21,925
Depreciation of property, plant and equipment	1,056	1,057
Depreciation of right-of-use assets	59	–
Minimum lease payments for operating leases in respect of land and buildings	846	878
Write-down of inventories, net	154	47

8. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 30 September 2019 (2018: nil).

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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Loss:		
Loss for the period attributable to owners of the Company	2,633	1,897
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 the manufacture 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 of 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 decreased from approximately HK\$26,545,000 for the three months ended 30 September 2018 to approximately HK\$24,567,000 for the three months ended 30 September 2019, representing a drop of approximately 7.5%. Such decrease is mainly attributable to (i) reduction of sales orders owing to fierce price competition in the PRC & Asia Pacific market and US-China trade war and (ii) decrease in the completed orders resulted from the continuous shortage of supply and tight delivery of raw materials from a major supplier. The gross profit of the Group declined by 28.7% from approximately HK\$4,620,000 for the three months ended 30 September 2018 to HK\$3,295,000 for the three months ended 30 September 2019 with gross profit margin decreased from 17.4% to 13.4% for the corresponding period. The loss for the three months ended 30 September 2019 was approximately HK\$2,633,000, increased from a loss of HK\$1,897,000 for the three months ended 30 September 2018.

By operating segments, the revenue of manufacture and sale of wire/cable harnesses was approximately HK\$22,450,000 for the three months ended 30 September 2019 and accounted for 91.4% of the Group's total revenue, representing an increase of 2.3% as compared to approximately HK\$21,951,000 for the three months ended 30 September 2018. The revenue of manufacture and sale of power supply cords assembled products was approximately HK\$2,094,000 for the three months ended 30 September 2019 and accounted for 8.5% of the Group's total revenue, representing a drop of 41.6% as compared to approximately HK\$3,584,000 for the three months ended 30 September 2018. The revenue of trading of terminals, connectors and others was approximately HK\$23,000 for the three months ended 30 September 2019 and accounted for 0.1% of the Group's total revenue, representing a fall of 97.7% as compared to approximately HK\$1,010,000 for the three months ended 30 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

By geographical market segments, the revenue from the PRC recorded HK\$7,721,000 for the three months ended 30 September 2019 and accounted for 31.4% of the Group's total revenue and represented an increase of 2.1% as compared to approximately HK\$7,564,000 for the three months ended 30 September 2018. The revenue from Asia Pacific region (excluding the PRC) was approximately HK\$12,519,000 for the three months ended 30 September 2019 and accounted for 51.0% of the Group's total revenue, representing a drop of 18.3% as compared to approximately HK\$15,323,000 for the three months ended 30 September 2018. The revenue from Western Europe was approximately HK\$2,866,000 for the three months ended 30 September 2019 and accounted for 11.7% of the Group's total revenue, representing an increase of 24.5% as compared to approximately HK\$2,302,000 for the three months ended 30 September 2018. The revenue from North & South America was approximately HK\$1,461,000 for the three months ended 30 September 2019 and accounted for 5.9% of the Group's total revenue, representing an increase of 7.7% as compared to approximately HK\$1,356,000 for the three months ended 30 September 2018.

There were actually increase in the revenue generated from the manufacturing and sale of wire/cable harnesses to the customers situated in the PRC, Western Europe and South America after the Group's continuous efforts in developing new customers in the past. However, the increase were completely offset by a general decrease in volume from customers in Asia Pacific.

Throughout 2019, meetings with the major supplier in Western Europe who have the shortage of raw materials had been held. We considered that the problems/damages arisen from the shortage may be mitigated by the end of 2019 or the beginning of 2020. Nonetheless, we remain cautious as the macroeconomic environments are filled with lots of uncertainties. The prolonged trade ware and tariff negotiations between China and the United states has created and will continue to create significant uncertainty in the global business environment. We shall continue to monitor and tighten cost control over our operations so as to enhance our competitiveness. In short, the Group will continue to adopt traditional business strategy of boosting sales and cutting cost.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue decreased by 7.5% from approximately HK\$26,545,000 for the three months ended 30 September 2018 to approximately HK\$24,567,000 for the three months ended 30 September 2019. Such decrease is attributable to reduction of sales orders owing to fierce price competitions in the PRC & Asia Pacific market and US-China trade war; and decrease in the completed orders resulted from the continuous shortage of supply and tight delivery of raw materials from a major supplier. Cost of sales decreased by 3.0% from approximately HK\$21,925,000 for the three months ended 30 September 2018 to approximately HK\$21,272,000 for the three months ended 30 September 2019. The gross profit margin was dropped from 17.4% for the three months ended 30 September 2018 to 13.4% for the three months ended 30 September 2019. As a result, the gross profit of the Group dropped by 28.7% from approximately HK\$4,620,000 for the three months ended 30 September 2018 to HK\$3,295,000 for the three months ended 30 September 2019.

Other income increased by 86.1% from approximately HK\$345,000 for the three months ended 30 September 2018 to approximately HK\$642,000 for the three months ended 30 September 2019. Such increase was mainly due to a one-off government grant of approximately HK\$520,000 for our factory in the PRC being certified as one of 高新技術企業 (High-New Technology Enterprise) in November 2018.

Selling and distribution costs mainly consisted of transportation, travelling expenses and storage costs, amounted to approximately HK\$753,000 for the three months ended 30 September 2018 and decreased to approximately HK\$683,000 for the three months ended 30 September 2019. Such decrease was mainly due to the decrease of associated expenses related to the trading of terminals and connectors.

Administrative expenses, consisting primarily of staff costs, rental expenses, general office expenses, depreciation, licence fees, professional fees and travelling expenses decreased by 9.7% from approximately HK\$5,920,000 for the three months ended 30 September 2018 to approximately HK\$5,347,000 for the three months ended 30 September 2019.

Other gains and losses mainly comprised of net exchange gains and loss and gain on disposal of property, plant and equipment, amounted to net other losses of approximately HK\$373,000 for the three months ended 30 September 2019 as compared to net other losses of approximately HK\$66,000 for the three months ended 30 September 2018. For the three months ended 30 September 2019, the Group recognized net exchange losses of approximately HK\$385,000 as a result of fluctuation of Renminbi against HK\$ whilst we only recognized an exchange loss of approximately HK\$266,000 for the three months ended 30 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expense increased by 31.7% from approximately HK\$123,000 for the three months ended 30 September 2018 to approximately HK\$162,000 for the three months ended 30 September 2019. Such increase was mainly due to the increase in provision of Malaysia Corporate Income Tax.

As a result of the above, the Group recorded a loss of approximately HK\$2,633,000 for the three months ended 30 September 2019 while the loss for the three months ended 30 September 2018 was approximately HK\$1,897,000.

Dividend

The Board does not recommend the payment of any dividend for the three months ended 30 September 2019 (2018: 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 during the period.

As at 30 September 2019, 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)").

Significant Investment Held

As at 30 September 2019 and 2018, the Group did not hold any significant investments.

Contingent Liabilities

As at 30 September 2019 and 2018 the Group did not have any material contingent liabilities.

Pledge of the Group's Assets

As at 30 September 2019, the bank deposits of approximately HK\$560,000 (30 June 2019: approximately HK\$565,000) were pledged to a bank to secure bank guarantee to a subsidiary of the Group.

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. The 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

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 2019, the unused proceeds from the Listing in the amount of approximately HK\$38,403,000 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 2019 is set out below:

	Planned use of net proceeds (Adjusted in the same manner as stated in Prospectus)	Actual use of net proceeds up to 30 September 2019	Unutilised balance as at 30 September 2019
	HK\$'000	HK\$'000	HK\$'000
Upgrade and increase our production capacity	40,978	12,653	28,325
Enhance our manufacturing, information technology and human resources management capabilities	4,528	3,042	1,486
Strengthen our sales and marketing efforts	6,226	2,502	3,724

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 2019, 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**"). Jumbo Planet is a direct wholly-owned subsidiary of New Universe Industries Limited ("**New Universe**"). New Universe is a direct wholly-owned subsidiary of Perfect Asset Investments Limited ("**Perfect Asset**"), which in turn is wholly-owned by Mr. Lau. By virtue of the SFO, Mr. Lau is deemed, or taken to be, interested in the Shares held by Jumbo Planet in the Company. Mr. Lau is a director of Jumbo Planet, New Universe and Perfect Assets.

Save as disclosed above, as at 30 September 2019, none of the Directors or the chief executive of the Company or any 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 2019, 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
New Universe	Interest in a controlled corporation (Note 2)	450,000,000 Shares (L)	75
Perfect Asset	Interest in a controlled corporation (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. Jumbo Planet is a direct wholly-owned subsidiary of New Universe. New Universe is a direct wholly-owned subsidiary of Perfect Asset, which in turn is wholly-owned by Mr. Lau. By virtue of the SFO, each of New Universe and Perfect Asset and Mr. Lau is deemed, or taken to be, interested in the Shares held by Jumbo Planet in the Company.

DISCLOSURE OF INTERESTS

- (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 2019, 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 2019.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than the Share Option Scheme, at no time during the three months ended 30 September 2019 was the Company, any of its holding company, 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 2019, 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 2019.

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions by the Directors during the three months ended 30 September 2019.

OTHER INFORMATION

CONTINUING CONNECTED TRANSACTION

The Company entered into the Master Sales Agreement with Brascabos International Group Limited, a company incorporated in British Virgin Islands with limited liability and is indirectly wholly owned by Mr. Lau, pursuant to which the Group shall sell power cords, cable/wire and harnesses to the Brascabos Group commencing from the date of the Master Sales Agreement for an initial term ending on 30 June 2021. Details are set out in the announcements of the Company dated 18 April 2019.

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 2019.

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. Lee Hon Man Eric and Mr. Cheung Wai Kuen. 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 2019 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 2019 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, 8 November 2019

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