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CircuTech International Holdings Limited
訊智海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8051)

QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors ("**Directors**" and each a "**Director**") of CircuTech International Holdings Limited (the "**Company**") 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 announcement 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 announcement misleading.*

HIGHLIGHTS

- The Company and its subsidiaries (collectively referred to as the "**Group**") recorded a turnover of approximately HK$72.9 million for the three months ended 31 March 2020 (three months ended 31 March 2019: approximately HK$50.4 million), representing an increase of approximately HK$22.5 million when compared with the same period last year.

- The Group recorded a profit attributable to the owners of the Company of approximately HK$0.9 million for the three months ended 31 March 2020 (three months ended 31 March 2019: Loss of approximately HK$0.01 million), representing a swing of approximately HK$0.9 million when compared with the same period last year. The board (the "**Board**") of Directors considers that the aforesaid swing to profit of the Group for the three months ended 31 March 2020 was mainly attributable to the profit from the distribution of third party IT products.

- The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2020 (three months ended 31 March 2019: Nil).

QUARTERLY RESULTS

The Board hereby announces the unaudited condensed consolidated quarterly results of the Group for the three months ended 31 March 2020, together with the comparative unaudited figures for the corresponding period in 2019, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Three months ended 31 March 2020 HK$'000 (unaudited)	2019 HK$'000 (unaudited)
Revenue	3	**72,877**	50,433
Cost of sales		**(66,629)**	(45,599)
Gross profit		**6,248**	4,834
Other income		**773**	767
Selling and distribution costs		**(1,438)**	(1,341)
Administrative expenses		**(4,313)**	(3,893)
Research and development expenditure		**(395)**	(388)
Finance costs		**(8)**	(25)
Operating profit/(loss)		**867**	(46)
Share of net profit of an associate accounted for using the equity method		**247**	120
Profit before income tax	5	**1,114**	74
Income tax expenses	6	**(255)**	(84)
Profit/(loss) for the period		**859**	(10)
Other comprehensive income for the period:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(138)**	95
Other comprehensive income for the period		**(138)**	95
Total comprehensive income for the period		**721**	85

	Notes	Three months ended 31 March **2020** ***HK$'000*** **(unaudited)**	2019 *HK$'000* (unaudited)
Profit/(loss) for the period attributable to:			
– Owners of the Company		**859**	(10)
– Non-controlling interests		**–**	–
		859	(10)
Total comprehensive income for the period attributable to:			
– Owners of the Company		**719**	103
– Non-controlling interests		**2**	(18)
		721	85
Earnings/(loss) per share attributable to owners of the Company *(HK cents per share)*	*7*		
– Basic and diluted		**3.67**	(0.04)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Share capital *HK$'000*	Share premium *HK$'000*	Translation reserve *HK$'000*	Special reserve *HK$'000*	Financial asset at FVOCI *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
Balance at 1 January 2020 (audited)	4,687	183,006	(2,424)	14,990	49	(66,448)	133,860	(495)	133,365
Profit for the period	–	–	–	–	–	859	859	–	859
Other comprehensive income for the period ended 31 March 2020									
Exchange differences on translation of foreign operations	–	–	(140)	–	–	–	(140)	2	(138)
Total comprehensive income for the period	–	–	(140)	–	–	859	719	2	721
Balance at 31 March 2020 (unaudited)	4,687	183,006	(2,564)	14,990	49	(65,589)	134,579	(493)	134,086
Balance at 1 January 2019 (audited)	4,687	183,006	(1,731)	14,990	30	(68,889)	132,093	(491)	131,602
Change in accounting policy	–	–	–	–	–	(48)	(48)	–	(48)
Balance at 1 January 2019 (restated)	4,687	183,006	(1,731)	14,990	30	(68,937)	132,045	(491)	131,554
Loss for the period	–	–	–	–	–	(10)	(10)	–	(10)
Other comprehensive income for the period ended 31 March 2019									
Exchange differences on translation of foreign operations	–	–	113	–	–	–	113	(18)	95
Total comprehensive income for the period	–	–	113	–	–	(10)	103	(18)	85
Balance at 31 March 2019 (unaudited)	4,687	183,006	(1,618)	14,990	30	(68,947)	132,148	(509)	131,639

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

CircuTech International Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") is principally engaged in the sales and distribution of IT products, and the provision of repairs and other service support of IT products.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company has its primary listing on GEM of The Stock Exchange of Hong Kong Limited.

These unaudited condensed consolidated financial information is presented in Hong Kong dollars ("**HK$**"), unless otherwise stated.

2. BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the three months ended 31 March 2020 has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable requirements of the GEM Listing Rules. This unaudited condensed consolidated financial information does not include all information and disclosures as required in the annual financial statements.

The principal accounting policies applied in the preparation of this unaudited condensed consolidated financial information are consistent with those of the financial statements for the year ended 31 December 2019, except for the adoption of new and amended standards and interpretation effective for the financial year ending 31 December 2020. The following new and amended standards and interpretation are mandatory for the first time for the financial year beginning on 1 January 2020.

Amendments to HKFRS 3	Definition of a business
Amendments to HKAS 1 and HKAS 8	Definition of material

The adoption of the above new and amended standards and interpretation did not have a material impact on the Group's unaudited condensed consolidated financial information for the three months ended 31 March 2020.

3. REVENUE

An analysis of the Group's revenue from its major products and services for the periods is as follows:

	Three months ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sales and distribution of IT products	**72,805**	50,346
Repairs and service support	**72**	87
	72,877	50,433

4. SEGMENT INFORMATION

The Group is principally engaged in the sales and distribution of IT products, and the provision of repairs and other service support of IT products.

The chief operating decision-makers have been identified as the executive directors of the Company (the "**Executive Directors**"). The Executive Directors have determined the operating segments based on the information reviewed by them that are used to make strategic decisions.

The Executive Directors examine the Group's performance from a product perspective, and have identified two reportable segments of the Group's business:

(i) Sales and distribution of IT products: this part of business designs, manufactures and markets video surveillance systems and distributes third party IT products; and

(ii) Repairs and service support: repairs, maintenance and other service support for electronic products are provided under this part of business.

No sales between segments are carried out during the three months ended 31 March 2020 and 2019. The revenue from external parties is measured in the same way as in the condensed consolidated statement of comprehensive income.

Interest income from bank deposits and corporate expenses are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

Segment revenue and results

The segment information provided to the Executive Directors for the reportable segments for the three months ended 31 March 2020 and 2019 is as follows:

Three months ended 31 March 2020

	Sales and distribution of IT products *HK$'000* (unaudited)	Repairs and service support *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
Revenue			
Revenue from external customers	72,805	72	72,877
Time of revenue recognition			
– At a point in time	72,805	–	72,805
– Over time	–	72	72
Segment profit	2,988	19	3,007
Other income			773
Unallocated corporate expenses *(Note)*			(2,905)
Finance costs			(8)
Operating profit			867
Share of net profit of an associate accounted for using the equity method			247
Profit before income tax			1,114
Income tax expenses			(255)
Profit for the period			859

Three months ended 31 March 2019

	Sales and distribution of IT products *HK$'000* (unaudited)	Repairs and service support *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
Revenue			
Revenue from external customers	50,346	87	50,433
Time of revenue recognition			
– At a point in time	50,346	–	50,346
– Over time	–	87	87
Segment profit	1,795	23	1,818
Other income			767
Unallocated corporate expenses *(Note)*			(2,606)
Finance costs			(25)
Operating loss			(46)
Share of net profit of an associate accounted for using the equity method			120
Profit before income tax			74
Income tax expenses			(84)
Loss for the period			(10)

Note:

Unallocated corporate expenses represent general corporate expenses such as executive salaries and other unallocated general and administrative expenses.

5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging and crediting the following:

	Three months ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**591**	590
Depreciation of right-of-use assets	**325**	339
Interest on lease liabilities	**8**	25
Interest income	**(170)**	(167)
Net foreign exchange losses/(gains)	**102**	(77)
Provision for inventories (included in cost of sales)	**1,527**	203
Rental income	**(600)**	(600)

6. INCOME TAX EXPENSES

Hong Kong and overseas profits tax has been provided at the rate of 16.5% (2019: 16.5%) and at the rates of taxation prevailing in the countries in which the Group operates respectively.

	Three months ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current income tax		
– Overseas taxation	**255**	84

7. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period:

	Three months ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings/(loss) per share	**859**	(10)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings/(loss) per share *('000)*	**23,434**	23,434
Basic earnings/(loss) per share attributable to the ordinary equity holders of the Company *(HK cents per share)*	**3.67**	(0.04)

Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is equal to basic earnings/(loss) per share as there was no dilutive potential share outstanding during the period (three months ended 31 March 2019: same).

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 31 March 2020 (three months ended 31 March 2019: Nil).

BUSINESS REVIEW

Sales and distribution of IT products

The Group offers a comprehensive and broad range of video surveillance products which have unique technologies, including five layers hacker resistance and best-in-class video compression technology sold under its own brand name. These technologies are complementary to one another, and provide customers with dedicated cost efficient solutions. The Group directly and indirectly competes with large global vendors in form of pricing, information technology and range of services. Nevertheless, the Group will closely monitor the market in order to strengthen its market position and to improve profitability.

The Group has also addressed the commoditisation of video surveillance systems by broadening its products offering through distribution of third-party IT products. The Group signed an agreement with a renowned IT brand to distribute third party IT products through its well-established wholesale network covering the North America, Asia, Europe, Middle East and Africa. The third-party IT products are refurbished and end-of-life units, thus the Company extends the life of these products in the post-sales circular economy. During the period, the Group has diversified and grown its customer base to reduce customer concentration risk. In addition, the Group developed its online trade-in platform and cooperated with a renowned IT brand as its trade-in partner for certain smart devices. The Group's advantages to compete against other global distributors are management's expertise and proven track record, together with being a member of the Foxconn Technology Group that has strong business bond with this renowned IT brand. The Group will continue to manage its tied up working capital by improving the inventory turnover days and mitigating the inventory risk, with an aim to shorten the cash conversion cycle.

During the period, the Group continued to review and re-evaluate its business model, with an aim to improve efficiency, and achieve a higher profit margin in the long run. The Group will continue to closely monitor the market situations and make necessary adjustments to its strategies and operations.

Provision of repairs and other service support of IT products

The Group provides full range of after sales maintenance for video surveillance products carrying its own brand name. Smart device applications were also developed by the Group to provide remote control and monitoring of the video surveillance products. As an extension of the Group's repair and service support segment, the Group is liaising with potential customers for provision of repair services.

During the period, the Group entered into a continuing connected transaction with a subsidiary of the Company's controlling shareholders for provision of certain repair services for the fulfillment of customers need. The Group will also consider setting up its own maintenance center in China after considering relevant costs, expected return and efficiency in providing the repair services.

FINANCIAL REVIEW

Revenue

The Group's total revenue was approximately HK$72.9 million for the three months ended 31 March 2020, representing an increase of approximately 44.6% as compared to that of approximately HK$50.4 million for the three months ended 31 March 2019. The increase in business volume was attributable to the growth in customer base and broadened product mix to achieve better profit in the long run.

Cost of sales

A major component of the cost of sales was the cost of inventories. In line with the increase in business volume, the cost of sales for the three months ended 31 March 2020 increased to approximately HK$66.6 million, as compared to that of approximately HK$45.6 million for the same period in 2019. Provision of inventories, included in the cost of sales, increased to approximately HK$1.5 million as compared to that of approximately HK$0.2 million for the same period in 2019 to account for the increase in slow-moving inventories.

Gross profit and gross profit margin

Gross profit increased by approximately HK$1.4 million for the three months ended 31 March 2020, which was in line with the increase in business volume. The overall gross profit margin slightly decreased to approximately 8.6% for the three months ended 31 March 2020 due to change in product mix sold in the first quarter of 2020.

Administrative expenses

Administrative expenses increased by approximately 10.8% to approximately HK$4.3 million during the three months ended 31 March 2020. It was mainly due to the professional fee incurred in relation to a continuing connected transaction with a subsidiary of the Company's controlling shareholders for provision of certain repair services and the recognition of foreign currency exchange losses arising from the depreciation of the Euro.

Net profit/(loss) for the period

The Group recorded a net profit of approximately HK$0.9 million and net loss of approximately HK$0.01 million for the three months ended 31 March 2020 and 2019, respectively. The improved result was mainly due to a better profit generated from the sales and distribution of IT products segment. The Board considers that the gentle swing in profitability in the first quarter is generally in line with and comparable with the financial figures of the Group for the year ended 31 December 2019. The Group recorded a net profit of approximately HK$2.5 million for the year ended 31 December 2019.

BUSINESS OUTLOOK

The Group expects to face keen competition in the IT product distribution business and the management will closely monitor the IT product distribution business and may adjust the Group's business portfolio in a bid to increase customer base and generate better and more stable returns to the shareholders.

In order to diversify the business portfolio of the Group and to avoid overconcentration on a single business segment, given the current contribution of the repairs and service support segment to the overall revenue of the Group, the Group believes that there is plenty of room for growth of the repairs and service support segment. The Group has attracted a new customer which is a renowned industrial company headquartered in the US. It is expected that the new customer will generate recurring business and it may have a positive impact on the Group's revenue.

The Group will continuously strengthen the management team, expand the international footprint and broaden its customer base. The management anticipates additional fundraising may from time to time be required to support the working capital expenditure for such business growth. This entails investment in expanding and revamping overseas organization structure, and potential capital expenditures if it is deemed to strategically enhance its capabilities.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group financed its daily operations with internally generated resources and net proceeds from the rights issue completed on 20 October 2017. The Group had net current assets of approximately HK$111.7 million (31 March 2019: HK$106.7 million) and cash and cash equivalents amounted to approximately HK$83.2 million as at 31 March 2020 (31 March 2019: HK$84.0 million). The Group had no borrowings outstanding as at 31 March 2020.

As at 31 March 2020, the gearing ratio, which is calculating on the basis of total debts over total equity of the Group, was 27.8% (31 March 2019: 41.9%).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As of 31 March 2020, none of the Directors and chief executives of the Company was interested in, or had short positions in, any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) which were required to be disclosed under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required under Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the three months ended 31 March 2020 was the Company, its holding company or any of its subsidiaries a party to any arrangements 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 and none of the Directors, their spouses or children under the age of eighteen, had any rights to subscribe for securities of the Company, or had exercised any such right during the three months ended 31 March 2020.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As of 31 March 2020, so far as is known to the Directors, the interests and short positions of the persons or corporations (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long position in shares as at 31 March 2020

Name of Shareholders	Capacity	Number of shares held/ interested	Percentage of the issued share capital of the Company (approximate)
Foxconn (Far East) Limited	Beneficial owner	11,853,524	50.58%
Hon Hai Precision Industry Co., Ltd.	Interest in controlled corporation	11,853,524	50.58%

Note:

Foxconn (Far East) Limited is a wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd., a company incorporated in Taiwan and listed on the Taiwan Stock Exchange (stock code: 2317.TW). Hon Hai Precision Industry Co., Ltd. is deemed to be interested in the shares of the Company held by Foxconn (Far East) Limited under the SFO.

Save as disclosed above, as at 31 March 2020, the Company had not been notified by any other persons (other than a Director or chief executive of the Company) who had interests or short positions in the shares and the underlying shares of the Company, which were required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

COMPETITION AND CONFLICT OF INTERESTS

During the three months ended 31 March 2020, none of the Directors, controlling shareholders or their respective close associates (as defined in the GEM Listing Rules) had any interests in a business that competes or may compete either directly or indirectly with the business of the Group.

PURCHASES, SALE OR REDEMPTION OF SECURITIES

The Company had not redeemed any of its shares during the three months ended 31 March 2020. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the three months ended 31 March 2020.

AUDIT COMMITTEE

The Audit Committee of the Company consists of three members, being the three independent non-executive Directors, namely Mr. Li Robin Kit Ling (chairman), Mr. Yeung Wai Hung Peter and Mr. Miao Benny Hua-ben.

The primary duties of the Audit Committee are to review and oversee the financial reporting system, risk management and internal control systems of the Group. The Audit Committee is also responsible for, among other things, reviewing the Company's annual report and financial statements, quarterly reports and half-yearly report, reviewing significant financial reporting judgments contained therein and providing advice and comments thereon to the Board.

The Audit Committee has reviewed the unaudited condensed consolidated financial information of the Group for the three months ended 31 March 2020, this announcement and the quarterly report, and has provided advice and comments thereon.

By order of the Board
CircuTech International Holdings Limited
Mr. Hong Sung-Tai
Chairman

Hong Kong, 13 May 2020

As at the date of this announcement, the executive Directors are Mr. Hong Sung-Tai, Ms. Chen Ching-Hsuan, Mr. Tsai Biing-Hann and Mr. Han Chun-Wei; the non-executive Director is Mr. Kao Chao Yang; and the independent non-executive Directors are Mr. Yeung Wai Hung Peter, Mr. Li Robin Kit Ling and Mr. Miao Benny Hua-ben.

This announcement will remain at the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and on the website of the Company at www.circutech.com.

In the event of any discrepancies between the English version and the Chinese version, the English version shall prevail.

Certain amounts and percentage figures included in this announcement have been subject to rounding adjustments.