MOBI 摩比

MOBI Development Co., Ltd.
摩 比 發 展 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 947)

Announcement of Interim Results for the six months ended 30 June 2020

- Revenue decreased to approximately RMB456.9 million, representing a decrease of approximately 21.7%.
- Gross profit margin decreased from approximately 24.4% in the first half of 2019 to approximately 24.1% in the first half of 2020.
- Profit attributable to owners of the Company was approximately RMB14.91 million representing an increase of approximately 7.1%.
- Basic earnings per share for the six months ended 30 June 2020 was approximately RMB1.82 cents.

The board (the "Board") of directors (the "Directors") of MOBI Development Co., Ltd. (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June **2020** (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Revenue	3	**456,850**	583,632
Cost of sales		**(346,764)**	(441,419)
Gross profit		**110,086**	142,213
Other income and expenses	3	**26,915**	17,357
Research and development costs		**(49,668)**	(45,567)
Distribution and selling expenses		**(27,509)**	(44,928)
Administrative expenses		**(44,595)**	(50,467)
Finance costs	4	**(2,065)**	(6,079)
Share of losses of associates		**(299)**	(192)
Profit before taxation		**12,865**	12,337
Income tax credit	5	**2,041**	1,579
Profit and the total comprehensive income for the period attributable to owners of the company	6	**14,906**	13,916
Earnings per share			
– basic (RMB cents)	8	**1.82**	1.70
– diluted (RMB cents)	8	**1.82**	1.70

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	**30 June 2020 (Unaudited) RMB'000**	31 December 2019 (Audited) RMB'000
Non-current assets			
Property, plant and equipment		**385,591**	377,278
Right-of-use assets		**34,457**	35,461
Deposits for purchase of plant and equipment		**10,451**	7,464
Deferred tax assets		**59,215**	57,172
Intangible assets		**65,758**	66,273
Interest in associates		**4,633**	4,001
		560,105	547,649
Current assets			
Inventories		**287,009**	281,691
Trade receivables	9	**509,677**	477,785
Notes receivable		**159,763**	136,357
Income tax recoverable		**1,586**	1,586
Prepayments, deposits and other receivables		**86,811**	95,281
Pledged bank balances		**109,262**	137,074
Bank balances and cash		**265,862**	292,411
		1,419,970	1,422,185
Current liabilities			
Trade payables	10	**440,339**	377,759
Notes payable		**124,987**	214,423
Other payables and accruals		**78,957**	74,802
Contract liabilities		**9,814**	6,206
Bank borrowings		**114,000**	98,882
Lease liabilities		**4,530**	4,408
Deferred income		**24**	24
Dividend payable		**19,185**	4,132
		791,836	780,636

	Notes	**30 June 2020 (Unaudited) RMB'000**	31 December 2019 (Audited) RMB'000
Net current assets		**628,134**	641,549
Total assets less current liabilities		**1,188,239**	1,189,198
Non-current liabilities			
Lease liabilities		**4,248**	5,021
Deferred income		**12,735**	12,749
		16,983	17,770
Net assets		**1,171,256**	1,171,428
Capital and reserves			
Issued capital		**6**	6
Reserves		**1,171,250**	1,171,422
Equity attributable to owners of the Company		**1,171,256**	1,171,428

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The condensed consolidated interim financial statements does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2019.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2019.

In the current interim period, the Group has applied, for the first time, the following revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The directors of the Company anticipate that the application of the above revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments to report segment information for the six months period ended 30 June 2019 and 2020. Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), being the chief executive officer of the Company, for the purpose of resource allocation and performance assessment. Information reported to the CODM is focused on three principal categories of products - antenna system, base station RF subsystem and coverage extension solution and others.

No measure of segment assets and liabilities are reported to the CODM for performance assessment and resource allocation. Accordingly, no segment assets and liabilities are presented.

The Group's reportable segments under HKFRS 8 are as follows:

Antenna system - manufacture and sale of antenna system and related products

Base station RF subsystem - manufacture and sale of base station RF subsystem and related products

Coverage extension solution and others - manufacture and sale of a wide array of coverage products and others

Information of segment revenues and segment results

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Segment revenues		
Antenna system	**277,391**	340,982
Base station RF subsystem	**113,992**	205,364
Coverage extension solution and others	**65,467**	37,286
	456,850	583,632
Segment results		
Antenna system	**49,516**	77,066
Base station RF subsystem	**3,452**	12,768
Coverage extension solution and others	**7,450**	6,812
	60,418	96,646
Reconciliation of segment results to profit before taxation:		
Other income and expenses	**26,915**	17,357
Unallocated corporate expenses	**(72,104)**	(95,395)
Finance costs	**(2,065)**	(6,079)
Share of results of associates	**(299)**	(192)
Profit before taxation	**12,865**	12,337
Other segment information		
Depreciation:		
Antenna system	**6,281**	5,596
Base station RF subsystem	**3,684**	4,278
Coverage extension solution and others	**541**	565
Segment total	**10,506**	10,439
Unallocated amount	**7,374**	5,619
Group total	**17,880**	16,058
Research and development costs:		
Antenna system	**28,890**	22,135
Base station RF subsystem	**13,685**	16,987
Coverage extension solution and others	**7,093**	6,445
Group total	**49,668**	45,567

Revenues reported above represent revenues generated from external customers. There are no inter-segment sales during the six months ended 30 June 2019 and 2020.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the annual report of the Company for the year ended 31 December 2019. The Group does not allocate other income and expenses, unallocated corporate expenses, finance costs and share of results of associates to individual reportable segments when making decisions about resources to be allocated to the segments and assessing their performance.

Entity-wide disclosures:

Information about products

Revenues from each group of similar products within the reportable segments are as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Antenna system		
5G antennas	**104,318**	1,103
Multi-band/Multi-system antennas	**87,983**	110,127
WCDMA/FDD-LTE antennas	**35,655**	58,395
Low-band refarming/IoT antennas	**19,753**	116,060
Microwave antennas	**9,702**	10,971
Multi-beam antennas	**5,439**	–
TD/TD-LTE antennas	**673**	18,201
Other antennas	**13,868**	26,125
	277,391	340,982
Base station RF subsystem		
WCDMA/FDD-LTE RF devices	**92,217**	122,726
TD/TD-LTE RF devices	**14,621**	20,058
GSM/CDMA RF devices	**5,277**	14,978
Low-band refarming/IoT RF devices	**1,620**	40,475
Other devices	**257**	7,127
	113,992	205,364
Coverage extension solution and others		
Aesthetic antennas	**27,189**	33,981
Customer Premise Equipment	**33,797**	–
Small Cell	**1,004**	–
Other products	**3,477**	3,305
	65,467	37,286
	456,850	583,632

Information about major customers

Revenues from customers of the corresponding periods contributing over 10% of the total sales of the Group are as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Customer A[1]	**199,051**	139,496
Customer B[1]	**67,751**	108,457

1 revenue mainly from antenna system and base station RF subsystem

Geographical information

The reportable segments of the Group are mainly operated in the PRC and overseas according to continents distribution. An analysis of the Group's geographical information on revenues attributed to continents on the basis of the customer's location is set out in the following table:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PRC	**279,998**	399,823
Overseas		
Other countries/areas in Asia	**63,008**	89,274
Europe	**84,415**	76,487
Americas	**29,401**	18,048
Africa	**28**	–
Subtotal	**176,852**	183,809
	456,850	583,632

All non-current assets (other than deferred tax assets) of the Group are located in the PRC.

3. REVENUE, OTHER INCOME AND EXPENSES

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sale of wireless communication antenna systems, base station RF subsystems and products of coverage extension solution and others	**456,850**	583,632
Other income and expenses		
Government grants	**18,010**	10,838
Compensation income	**171**	952
Rental income	**4,465**	4,543
Interest income	**1,435**	3,739
Other income (expenses)	**2,834**	(2,715)
	26,915	17,357

4. FINANCE COSTS

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank borrowings – wholly repayable within five years	**1,798**	5,983
Interest on lease liabilities	**267**	96
	2,065	6,079

5. INCOME TAX CREDIT (EXPENSES)

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PRC income tax	**–**	–
Deferred tax	**2,041**	1,579
	2,041	1,579

The Company was incorporated in the Cayman Islands and is exempted from income tax.

The applicable tax rate of MOBI Technology (Hong Kong) Limited ("MOBI HK") is 16.5% of the estimated assessable profit for both periods.

MOBI Antenna Technologies (Shenzhen) Co., Ltd. ("MOBI Shenzhen") and MOBI Technology (Shenzhen) Co., Ltd. ("MOBI Technology") were established in Shenzhen, PRC, with applicable tax rate of 15%.

The applicable tax rate of MOBI Telecommunications Technologies (Ji An) Co., Ltd. ("MOBI Jian") and MOBI Technologies (Xi An) Co., Ltd. ("MOBI Xian") are 15% and 25% for the six months ended 30 June 2020 respectively.

The applicable tax rate of other PRC subsidiaries are 25% for the six months ended 30 June 2020.

6. PROFIT AND THE TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit and the total comprehensive income for the period has been arrived at after charging (crediting) the following items:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation	**17,880**	16,058
Depreciation of rights-of-use assets	**2,689**	1,443
Cost of inventories recognised as expenses	**346,763**	441,418
Net exchange (gain) loss	**(3,924)**	1,321

7. DIVIDENDS

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Dividends recognised as distribution during the period:		
2018 final dividend of HKD0.02 per ordinary share	**–**	14,331
2019 final dividend of HKD0.02 per ordinary share	**15,078**	–
	15,078	14,331

At the Board meeting held on 20 August 2020, the Directors of the Company do not recommend any payment of interim dividend for the six months ended 30 June 2020.

8. EARNINGS PER SHARE

The earning figures for calculation of the basic and diluted earnings per share attributable to the ordinary owners of the Company are based on the following data:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit for the period attributable to owners of the Company and earnings for purpose of basic and diluted earnings per share	**14,906**	13,916

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	Shares'000	Shares'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**819,587**	820,217
Effect of dilutive potential ordinary shares		
– 2013 share options	**–**	–
– 2015 share options	**–**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**819,587**	820,217

The amount of diluted earnings per share for the six months ended 30 June 2019 and 2020 were the same as basic earnings per share as there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2019 and 2020.

9. TRADE RECEIVABLES

The Group offers credit terms generally accepted in the antenna system, base station RF subsystem and coverage extension solution and others manufacturing industry to its trade customers, which is around 30 to 240 days for a significant number of the Company's products, although a longer credit term may be extended to certain customers, depending on price, the size of the contract, credibility and reputation of the customers. In order to manage the credit risks associated with trade receivables effectively, credit limits of customers are evaluated periodically. Before accepting any new customer, the Group conducts research on the creditworthiness of the new customer and assesses the potential customer's credit quality. Trade receivables that are neither past due nor impaired have the high ranking record attributable to their corresponding research on the creditworthiness.

The following is an aged analysis based on invoice date of trade receivables net of impairment losses at the end of reporting period:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
0 to 30 days	**141,547**	130,538
31 to 60 days	**75,590**	65,035
61 to 90 days	**48,474**	57,585
91 to 120 days	**24,270**	39,530
121 to 180 days	**11,019**	62,131
Over 180 days	**208,777**	122,966
	509,677	477,785

10. TRADE PAYABLES

The following is an aged analysis based on invoice date of trade payables at the end of reporting period:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
0 to 30 days	**90,027**	48,355
31 to 60 days	**75,176**	59,065
61 to 90 days	**55,796**	47,375
91 to 180 days	**108,039**	115,076
Over 180 days	**111,301**	107,888
	440,339	377,759

Typical credit term of trade payables ranges from 60 to 120 days.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Revenue

The Group's unaudited consolidated revenue for the six months ended 30 June 2020 amounted to approximately RMB456.9 million, representing a decrease of approximately 21.7% as compared with approximately RMB583.6 million in the corresponding period of 2019. Of which, sales of antenna system products decreased by approximately 18.7% to approximately RMB277.4 million, while sales of base station RF subsystem products decreased by approximately 44.5% to approximately RMB114.0 million. However, sales of coverage extension solution products and other products significantly increased by approximately 75.6% to approximately RMB65.47 million.

The above changes in revenue were mainly due to the significant impact on the revenue growth in the first quarter arising out of the delay in the resumption of work and production of the Group and upstream and downstream enterprises as a result of the influence of the outbreak of COVID-19 at home and abroad. In addition, the construction of 4G networks of China's domestic mobile communication enters a later stage, and the capital expenditures of 4G networks of domestic operators further decline significantly. However, the investment in 5G network construction of China's domestic mobile communication increases significantly. The revenue from 5G antenna products in the first half of 2020 increased substantially by approximately 9,355.2% to approximately RMB104.3 million, as compared with the corresponding period in 2019, and accounted for approximately 22.8%, thus maintaining a sustained and rapid growth trend. Meanwhile, based on the richer application scenarios in the 5G era, the Group further participates in application in vertical industries, and makes breakthrough progress in new business development, which is believed to be its new source of growth.

Antenna system

The Group's products of antenna system are primarily sold to the domestic network operators and network operators in overseas markets (for example in markets such as Asia, Europe and Americas); whilst a portion of our products of antenna system are sold to operators worldwide by way of network solution provider customers such as ZTE and Nokia.

In the first half of 2020, revenue from antenna system products decreased by approximately 18.7% to approximately RMB277.4 million (1H 2019: approximately RMB341.0 million), as compared with the corresponding period in 2019. Of which, due to the large-scale construction of 5G networks by domestic operators, the revenue from 5G antennas in the first half of 2020 substantially increased by approximately 9,355.2% to approximately RMB104.3 million, as compared with the corresponding period in 2019. In addition, driven by the demand for overseas network construction, the Group made a major breakthrough in multi-beam antennas, with revenue increasing by 100% to approximately RMB5.44 million, as compared with the corresponding period of last year. However, due to the changes in investment hotspots for construction of domestic mobile communication networks, revenues from WCDMA/FDD-LTE antennas and low-band refarming/IoT antennas decreased by approximately 38.9% and approximately 83.0% to approximately RMB35.66 million and approximately RMB19.75 million respectively, as compared with the corresponding period in 2019. In addition, due to the continuous impact of the overseas outbreak of COVID-19, certain awarded projects were delayed, leading to a decrease in the revenue from multi-frequency and multi-system antennas by approximately 20.1% to RMB87.98 million as compared with the corresponding period in 2019.

With the gradual large-scale application of 5G network of China's domestic mobile communication, 5G, as the driving force of a new round of scientific and technological revolution for initiating wide interconnection of all things and deep interaction between man and machine, constantly requires the innovation of wireless technology, and therefore, technical innovation and reliability requirements on antenna systems are more complex, and their update is accelerated. There are far fewer manufacturers capable of developing and producing high-performance and high-quality antenna systems than in previous times. The Group has long-term technology accumulation and comprehensive product coverage, and is in a leading position in the domestic industry in terms of client technology development capability and product quality performance. In addition, the Group continues to actively carry out expansion in the overseas operator market. On the one hand, it steadily acquires international operator customers, and on the other hand, it actively expands offerings of antenna system products. In the first half of 2020, it acquired new customers and product orders in many countries and regions. The Group believes that the large-scale construction of 5G networks and the continuous expansion of overseas markets will provide huge room for the continuous growth of antenna system business in the future.

Base station RF subsystem

The Group is a supplier of core RF subsystems for international communication equipment manufacturers, such as ZTE and Nokia, and provides them with a variety of products and solutions, including RF subsystem products. During the six months ended 30 June 2020, revenue from base station RF subsystem products decreased by approximately 44.5% to approximately RMB114.0 million as compared with the corresponding period of 2019 (1H 2019: approximately RMB205.4 million), mainly affected by the changes in investment hotspots for construction of China's domestic mobile communication networks and the project delay caused by the continuous impact of the overseas outbreak of COVID-19. Of which, the revenues from WCDMA/FDD-LTE and TD/TD-LTE RF subsystem products decreased by approximately 24.9% and 27.1% to approximately RMB92.22 million and RMB14.62 million respectively, as compared with the corresponding period in 2019. The revenues from low-band refarming and IoT RF subsystem products decreased by approximately 96.0% to approximately RMB1.62 million as compared with the corresponding period of 2019.

In the first half of 2020, the Group secured many development projects and market orders of the world's main system equipment manufacturers (such as ZTE and Nokia) including 5G RF subsystem products and ceramic dielectric filters and gradually formed a large-scale production, which was expected to provide a new source of growth for the Group in the second half of the year and subsequent periods, due to the impact of the project cycle. Meanwhile, through the product structural optimisation and continuous cost reduction, the Group's gross profit margin picked up again steadily. The Group believes that customer diversity, high-end products and enhancement of its status as a core supplier are conducive to increasing the market share and profitability of its RF subsystem in the 5G era.

Coverage extension solution and others

The arrival of the 5G era brings rich application scenarios and empowers vertical industries. The Group is committed to creating a diversified product portfolio and participating more in the construction of a new ecology in the 5G era. In the first half of 2020, the Group's revenue from coverage extension solution products and other products increased significantly by approximately 75.6% to approximately RMB65.47 million (1H 2019: RMB37.29 million) as compared with the corresponding period in 2019, mainly due to the breakthrough in new business development. The Group is full of confidence in the future diversified product portfolio and vertical industry expansion, which is believed to be a new source of growth for the Group.

Customer

In the first half of 2020, the Group noticed that changes in market hotspots also brought about changes in the structure of revenue from customers, while the Group's long-term and deep cooperation with telecommunication equipment manufacturers and telecommunication operators provides the Group with strong competitive advantages in the changes of market opportunities.

In the first half of 2020, the start-up of large-scale construction of 5G networks in the domestic market brought about opportunities for the continuous growth of the Group's businesses. As the delivery method of turnkey procurement is adopted for the high-band construction of 5G networks, and the 5G antenna system products and RF subsystem products of the Group are delivered to network solution equipment manufacturers, the Group's sales to the PRC equipment manufacturer customers in the first half of 2020 increased significantly by approximately 42.7% to approximately RMB199.1 million as compared with the corresponding period in 2019, and its proportion in total revenue in the current period increased to approximately 43.6%.

Affected by the outbreak of COVID-19 at home and abroad, the demand for mobile network construction in some countries and regions slowed down and some projects were delayed. In the first half of 2020, the Group's sales to international equipment manufacturer customers decreased by approximately 41.3% to approximately RMB77.36 million, as compared with the corresponding period of last year, and accounted for approximately 16.9% of the total revenue in the first half of 2020. The Group continues to maintain a leading supplier position among leading global equipment manufacturer customers, with both its technology and quality performance highly recognized by customers. It is believed that with the mitigation of the outbreak of COVID-19 and the recovery of the demand for international mobile network construction, new growth opportunities will still arise in the future.

In the first half of 2020, due to the changes in investment hotspots for the construction of domestic mobile communication networks, there was a significant increase in 5G network construction, while capital expenditures of 4G network and low-band refarming slowed down significantly. In addition, in the early stage of 5G wireless network construction, 5G AAU was a major part, and domestic operators changed the subcontracting procurement strategy to the turnkey procurement strategy. As a result, the revenue from the PRC network operators declined in the first half of 2020. Of which, sales to China Mobile, China Telecom and China Unicom decreased by approximately 90.2%, 41.0% and 52.4% to approximately RMB10.46 million, RMB16.47 million and RMB28.02 million respectively, as compared with the corresponding period of last year. However, sales in the first half of 2020 increased by 25.3% to approximately RMB5.19 million as compared with the corresponding period of last year, due to the strategic cooperation with China Tower being continuously deepened. At present, 5G network construction is still in early stages. With the large-scale deployment of medium and high-band 5G networks, the demand for low-band network construction will be gradually unlocked in the future. Based on the above circumstance and the diversification of purchase strategies, the Group believes that there will continue to be great opportunities for domestic 5G construction in the future.

Despite the continuous impact of the overseas outbreak of COVID-19, the Group continuously and actively expands the overseas operator market and increases brand awareness and influence by providing high cost-performance products to international operator customers and establishing long-term strategic cooperative relationships with customers. Direct sales to international operators in the first half of 2020 were approximately RMB111.9 million basically in line with the corresponding period of 2019 and accounted for approximately 24.5% of the total revenue in the first half of 2020, representing a continuous increase.

Gross Profit

The Group's gross profit decreased by approximately RMB32.10 million or approximately 22.6% from approximately RMB142.2 million in the first half of 2019 to approximately RMB110.1 million in the first half of 2020.

During the six months ended 30 June 2020, the Group's overall gross profit margin decreased slightly to approximately 24.1%, as compared with approximately 24.4% of the corresponding period last year. The Group improved the overall gross profit margin through the constantly optimizing products sales portfolio, increasing the proportion of high-tech products in sales and implementing effective control of internal costs.

Other Income and Expenses

Other income and expenses increased by approximately 55.1% from approximately RMB17.36 million in the first half of 2019 to approximately RMB26.92 million in the first half of 2020, mainly due to an increase in the government subsidies obtained by the Group.

Distribution and Selling Expenses

Distribution and selling expenses decreased by approximately 38.8% from approximately RMB44.93 million in the first half of 2019 to approximately RMB27.51 million in the first half of 2020, primarily due to the decrease in staff salaries, travel expenses, advertising fees, logistic fees, rents and charges of water and electricity, expenses on marketing and exhibition and business meeting expenses.

Administrative Expenses

Administrative expenses decrease by approximately 11.7% from approximately RMB50.47 million in the first half of 2019 to approximately RMB44.59 million in the same period of 2020, mainly due to (1) the decrease in costs including wages, social insurance charges, labor union dues, exchange loss and other insurance expenses and (2) the significant decrease in expenses such as business expenditures, maintenance costs and transportation costs.

Research and Development Costs

For the six months ended 30 June 2020, the Group recognised development costs of approximately RMB8.55 million as capitalization expenses. After the capitalization, research and development costs increased by approximately 9.0% from approximately RMB45.57 million in the first half of 2019 to approximately RMB49.67 million in the first half of 2020, which was mainly attributable to adjustment of the research and development personnel structure, and the increase in costs including wages, development materials costs, testing expenses, amortization of intangible assets and intellectual property royalties.

Finance Costs

Finance costs decreased significantly by approximately 66.0% from approximately RMB6.08 million in the first half of 2019 to approximately RMB2.07 million in the first half of 2020, mainly due to a decrease in the interest expenses arising out of a decline in the amount of borrowings.

Profit before Taxation

Profit before taxation for the first half of 2020 increased by approximately RMB0.53 million, or approximately 4.3%, from approximately RMB12.34 million for the corresponding period in 2019 to approximately RMB12.87 million. Net profit margin before tax charges increased from approximately 2.1% in the first half of 2019 to approximately 2.8% in the first half of 2020.

Income Tax Credit

The Group's income tax credit increased from approximately RMB1.58 million in the first half of 2019 to approximately RMB2.04 million in the first half of 2020. Our effective tax rates calculated from the tax charged to the consolidated statements of comprehensive income over the profit before tax were approximately -12.8% in the first half of 2019 and approximately -15.9% in the first half of 2020, respectively.

Profit for the Reporting Period

Profit for the first half of 2020 increased by approximately 7.1% from approximately RMB13.92 million for the corresponding period in 2019 to approximately RMB14.91 million. The Group's net profit margin was approximately 3.3% for the first half of 2020, as compared with 2.4% for the first half of 2019.

FUTURE PROSPECTS

In the future, the Group will further develop both domestic and international markets, and focus on the market of RF technology of wireless communication, especially on the base station RF technology and RF technology for other wireless communications.

Furthermore, the outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. The financial positions and performance of the Group were affected in certain aspects, including reduction in revenue and slow collection of trade receivables as disclosed in the relevant notes. As for the future business development of the Group, it is expected that many countries may implement mandatory government quarantine measures to contain the spread of the pandemic, which would bring more uncertainties to the operating environment of the Group in China and overseas markets. However, the Group has put in place contingency measures to lower the impact from the outbreak.

Customers

The Group will maintain its focus on global market and provide RF technology solutions to global leading network solution providers and network operators.

The Group is also one of the few one-stop providers in China who can provide RF solutions to international system providers and network operators. Due to keen competitions and the effects of global economic conditions, customers are more concerned of costs, technologies and qualities. Furthermore, international reputable customers require longer turnaround time and very strict certification requirements on their suppliers. By leveraging on its advantages of cost and technology, the Group has established strong relationships with a number of international well-known customers. We believe this can strengthen our competitiveness in the global market to a greater extent. The Group will further improve its development strategy for overseas markets and international business.

In 2020, the Group continuously expanded and deepened the scope of services to and cooperation with domestic operators. On the one hand, it maintained close strategic cooperation in traditional macrocell antennas, integrated aesthetic antennas and other projects, and on the other hand, it carried out in-depth cooperation in RF devices, indoor distribution projects, aesthetic comprehensive solutions, special scenario coverage, etc. With the continuous advancement of domestic 5G network construction, the 700MHz co-construction and sharing cooperation framework between China Mobile and China Broadcast TV Network, and the co-construction and sharing between China Telecom and China Unicom in a concentrated manner, and the complementary and coordinated development of bands among operators accelerate the construction of domestic 5G wireless networks. The Group believes that this will bring business opportunities for sustained growth in the second half of 2020 and in the future.

In terms of domestic equipment manufacturers, the Group has the advantage of being a leading supplier, including leading advantage in terms of product technology, quality performance and customer communication. In the current 5G network construction in China, the degree of strategic cooperation with system equipment manufacturers will largely determine the domestic market share of 5G antenna and RF subsystem business. The Group's close strategic partnership with domestic equipment manufacturers will make the Company's advantages more prominent in the future market.

As for international equipment manufacturers, in the first half of 2020, the Group continued to maintain an advantageous share. The Group believes that with the mitigation of the overseas outbreak of COVID-19, the implementation of research and development projects for international equipment manufacturers and the progress in the delivery of new products in the second half of the year, there will still be opportunities for continued business growth.

Through continuous technology accumulation and market expansion, the Group has continuously made new breakthroughs in the development of overseas direct sales markets. Especially in the European operator market, its sales continue to climb even with the continuous influence of the overseas outbreak of COVID-19. Meanwhile, it has made breakthrough progress in the African market. The European operator market is one of the mobile communication markets with the largest procurement scale, the highest technical difficulty and the most complex application scenarios in the world, as well as the long-term strategic direction of the Group. In the second half of 2020, the Group will make efforts to promote the technological upgrade of its products and improve its product coverage to meet the needs of overseas operator customers.

The Group is confident in its annual results of operation for 2020.

Products

On 6 June 2019, the Ministry of Industry and Information Technology of China officially issued 5G licenses to four operators, namely China Mobile, China Telecom, China Unicom and China Broadcasting Network, marking 5G commercialization in China. With the early issuance of 5G licenses, China accelerates its 5G progress and sees a huge market. The overall improvement in bandwidth, delay, synchronization and other performances in the 5G era will bring certain opportunities in existing and potential markets, including the demand for the construction of a large number of new base stations and roof reconstruction and deep coverage of existing base stations, leading to increasing demand for high-end antennas and antenna feeder integration. The Group believes that its strong R&D capabilities and leading position in the industry chain as well as the technical threshold for advanced high-end antennas are conducive to the Group's competitiveness. Meanwhile, driven by 5G Massive MIMO technology, 5G RF subsystem will be more complicated, miniaturized and light-weight, and will be developed using new materials, while dielectric filters may become a mainstream solution. The Group believes that the technological threshold of cutting-edge high-end antennas and the innovatory base station RF subsystem technology are beneficial to the Group in competition, while the Group has the capacity of the whole industry chain for product research, development and mass production, and has supplied goods massively. In general, the Group believes that with its leading position in technologies of 5G antennas and RF subsystems, and the integrated and source-based development of antenna and RF subsystem, its technology and customer accumulation in these two segments will enable it to get ahead in 5G network construction.

Globally, despite the popularization of LTE network, its overall development remains highly unbalanced, with the long-term imbalance between regions. Therefore, despite the temporary influence of the outbreak of COVID-19 in foreign countries, LTE network construction continues. The demand for overseas LTE network construction and complex multi-network stations will bring about a further upgrade of multi-frequency and multi-system antenna and multi-beam antenna technologies, making them closer to ultimate design. The Group has untaken a number of R&D projects from overseas customers and passed corresponding tests. The Group's continuous entry into the shortlists for overseas operators, and the accumulation of multi-frequency and multi-system integrated antenna technology and hybrid beam antenna technology, including its improvement in automated and intelligent production capabilities, enable the Group to further upgrade its antenna development platform to meet the evolving technical demands of international operators.

In terms of coverage extension solution products and other products, due to the rich application scenarios generated in the 5G era and new business forms in vertical industries, the business models and product demands of domestic operators are more diversified, and therefore, there will be a broad application space for the ecological portfolio of products. However, the Group has been deeply engaged in the communication industry for many years, with relevant leading technological advantages, and has continuously invested research and development and market resources. The Group believes that the continuous widening and deepening of the scope of services to and cooperation with domestic operators will bring more new business growth opportunities for the Group in the application business in 5G vertical industries.

Conclusion

The Group is one of the few one-stop solution providers of RF technology for global network operators and network solution providers in the PRC. The Group has a wide range of reputable customers and diversified income sources, which contributes to the positive and stable growth of the Group.

The Group will continue to optimize its customer base and structure, adapt strategies of product differentiation based on the technologies and costs, maximize the market opportunities in LTE, 5G and the next-generation wireless technology. The Group will also strive to enhance its integrated competitiveness to ensure the stable growth of the operating results of the Group and to maximize the returns to its shareholders and the society.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, we have funded our operations and capital requirements from cash generated from our operations, trade credit from our suppliers and short-term bank borrowings. We apply cash primarily in satisfying our increased working capital requirements and capital expenditures on purchases of production equipment in Shenzhen, Ji'an and Xi'an, China.

As at 30 June 2020, the Group had net current assets of approximately RMB628.1 million (31 December 2019: approximately RMB641.6 million) including inventories of approximately RMB287.0 million (31 December 2019: approximately RMB281.7 million), trade and notes receivables of approximately RMB669.4 million (31 December 2019: approximately RMB614.1 million) and trade and notes payables of approximately RMB565.3 million (31 December 2019: approximately RMB592.2 million).

For the six months ended 30 June 2020, average turnover days of our inventories, trade and notes receivables and trade and notes payables are approximately 149 days (1H 2019: approximately 195 days), 256 days (1H 2019: approximately 217 days) and 304 days (1H 2019: approximately 326 days), respectively. Turnover days are derived by dividing the arithmetic mean of the beginning and ending balances of relevant assets/liabilities classes for the relevant period by sales/cost of sales and multiplying by the number of days in the period. The increased weighting of trade receivables attributable to PRC network operators led to the lengthening of average receivable turnover days. In general, the average credit period for PRC network operators is longer than global network operators and solution providers. We offer credit terms generally accepted in the antennas and base station RF subsystems manufacturing industry to our trade customers.

As at 30 June 2020, the Group pledged bank balance with a value of approximately RMB109.3 million to the bank (31 December 2019: approximately RMB137.1 million), cash and bank balances of approximately RMB265.9 million (31 December 2019: approximately RMB292.4 million) and recorded bank borrowings of approximately RMB114.0 million (31 December 2019: approximately RMB98.88 million). The current ratio (current assets divided by current liabilities) decreased to approximately 1.79 times as at 30 June 2020 from approximately 1.82 times as at 31 December 2019. The gearing ratio (bank borrowings divided by total assets) was approximately 5.8% as at 30 June 2020, while the gearing ratio as at 31 December 2019 was approximately 5.0%.

The Board is of the opinion that the Group has a solid and stable financial position and adequate resources to support the necessary operating funding requirements and foreseeable capital expenditures.

FOREIGN EXCHANGE EXPOSURE

Renminbi ("RMB") is the functional currency of the Group. Currencies other than RMB expose the Group to foreign currency risk. We have foreign currency sales and purchases and certain trade receivables and bank balances are denominated in United States dollar ("US$"), Euro ("EUR") and Hong Kong dollars ("HK$"). We currently do not have a foreign currency hedging policy. However, the management monitors and will consider hedging of foreign currency exposure when necessary.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had approximately 2,836 staff. The total staff costs amounted to approximately RMB106.0 million for the six months ended 30 June 2020. The remuneration of the Group's employees is determined on the basis of their responsibilities and industry practices. Regular training is provided to improve the skills and expertise of relevant staff. The Group also grants share options and discretionary bonuses to eligible staff based on their performance.

CHARGE ON ASSETS

As at 30 June 2020, bank balances of approximately RMB109.3 million were pledged to bank to secure the banking facilities provided to the Group.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 30 June 2020, the Group had contracted for capital commitments relating to acquisition of property, plant and equipment of approximately RMB12.03 million. The Group did not have any significant contingent liabilities.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2020.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020.

CORPORATE GOVERNANCE

The Board has been adamant in upholding high standards of corporate governance to maximize the operational efficiency, corporate values and shareholder returns of the Company. The Company adopted sound governance and disclosure practices and continued to upgrade internal control system, strengthen risk control management and reinforce the corporate governance structure.

The Company has complied with the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") during the six months ended 30 June 2020 except for the deviation of code provision A.2.1.

The code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Currently, Mr. Hu Xiang ("Mr. Hu") is both the Chairman and Chief Executive Officer of the Company. Mr. Hu is one of the founders of the Group and has extensive experience in the telecommunication industry. Given the current stage of development of our Group, the Board believes that vesting the two roles in the same person provides our Company with strong and consistent leadership and facilitates the implementation and execution of our Group's business strategies. We shall nevertheless review the structure from time to time in light of the prevailing circumstances.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company has set up an audit committee with written terms of reference. The audit committee comprises three independent non-executive Directors. The principal duties of the audit committee include the review and supervision of the Group's financial reporting systems and internal control procedures, review of the Group's financial position and review of the relationship with the external auditor of the Company.

The Group's condensed consolidated interim financial statements for the six months ended 30 June 2020 have been reviewed by the audit committee of the Company, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

PUBLICATION OF INTERIM RESULTS AND 2020 INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.mobi-antenna.com. The 2020 Interim Report of the Company will be available on both websites and dispatched to shareholders in due course.

By order of the Board
MOBI Development Co., Ltd.
Hu Xiang
Chairman

Hong Kong, 20 August 2020

As at the date of this announcement, the executive directors are Mr. HU Xiang and Mr. LIAO Dong; the non-executive director is Mr. QU Deqian; and the independent non-executive directors are Mr. LI Tianshu, Mr. ZHANG Han and Ms. GE Xiaojing.