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Century Sage Scientific Holdings Limited

世紀睿科控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1450)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 55.4% to RMB53.0 million for the six months ended 30 June 2020 from RMB118.8 million for the six months ended 30 June 2019.
- Gross profit decreased by approximately 49.0% to RMB17.8 million for the six months ended 30 June 2020 from RMB34.9 million for the six months ended 30 June 2019.
- Net loss increased by approximately 2.0 times to a net loss of RMB29.5 million for the six months ended 30 June 2020 from a net loss of RMB14.5 million for the six months ended 30 June 2019.
- The Board does not recommend the distribution of interim dividend for the six months ended 30 June 2020 (2019: Nil).

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Century Sage Scientific Holdings Limited (the “**Company**”) herewith announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 (the “**Interim Period**”), together with the comparative figures for the six months ended 30 June 2019 (the “**Corresponding Period**”). The unaudited condensed consolidated interim results of the Group have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2020	2019
	Note	RMB'000	RMB'000
		Unaudited	Unaudited
Revenue	4	52,957	118,771
Cost of sales	4	(35,136)	(83,851)
Gross profit	4	17,821	34,920
Selling expenses		(5,128)	(9,265)
Administrative expenses		(23,158)	(22,879)
Research and development		(7,860)	(9,998)
Other gains — net		2,988	2,484
Operating loss	6	(15,337)	(4,738)
Finance income	7	16	28
Finance costs	7	(7,044)	(6,466)
Finance loss — net		(7,028)	(6,438)
Share of loss of investments accounted for using the equity method	5	(7,236)	(2,413)
Loss before income tax		(29,601)	(13,589)
Income tax expense	8	117	(888)
Loss for the period		(29,484)	(14,477)
Loss attributable to:			
Owners of the Company		(28,790)	(12,434)
Non-controlling interests		(694)	(2,043)

		Six months ended 30 June	
		2020	2019
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>
		Unaudited	Unaudited
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
	Currency translation differences	<u>(1,793)</u>	<u>990</u>
	Other comprehensive loss for the six-month period then ended, net of tax	<u>(1,793)</u>	<u>990</u>
	Total comprehensive loss for the period	<u>(31,277)</u>	<u>(13,487)</u>
Total comprehensive (loss)/income attributable to:			
	Owners of the Company	<u>(30,583)</u>	<u>(11,444)</u>
	Non-controlling interests	<u>(694)</u>	<u>(2,043)</u>
Loss per share (expressed in RMB cents per share)			
	Basic and diluted earnings per share	<u>(2.76)</u>	<u>(1.19)</u>
		<i>18</i>	

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2020	31 December 2019
	<i>Note</i>	RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	10	35,488	37,352
Intangible assets	10	40,224	43,947
Right-of-use assets		3,043	4,295
Deferred income tax assets		1,012	1,027
Trade and other receivables	11	24,936	24,809
Investments accounted for using the equity method	5	57,762	64,998
Total non-current assets		162,465	176,428
Current assets			
Inventories		76,607	90,756
Other current assets	12	20,674	27,933
Trade and other receivables	11	137,029	157,816
Financial assets at fair value through profit or loss		49,534	48,296
Pledged bank deposits		542	107
Cash and cash equivalents		14,444	13,670
Total current assets		298,830	338,578
Total assets		461,295	515,006
Equity			
Equity attributable to owners of the Company			
Share capital	14	8,290	8,290
Share premium	14	269,212	269,212
Other reserves		(66,736)	(66,164)
Retained earnings		(69,209)	(40,419)
Total equity		141,557	170,919
Non-controlling interests		10,710	11,404
Total equity		152,267	182,323

		30 June 2020	31 December 2019
	<i>Note</i>	RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Borrowings	16	20,000	21,257
Lease liabilities		380	1,068
Deferred income tax liabilities		325	457
		<hr/>	<hr/>
Total non-current liabilities		20,705	22,782
		<hr/>	<hr/>
Current liabilities			
Contract liabilities	13	28,421	57,452
Trade and other payables	17	118,979	115,051
Current income tax liabilities		11,642	12,668
Lease liabilities		2,101	2,678
Borrowings	16	127,180	122,052
		<hr/>	<hr/>
Total current liabilities		288,323	309,901
		<hr/>	<hr/>
Total liabilities		309,028	332,683
		<hr/>	<hr/>
Total equity and liabilities		461,295	515,006
		<hr/>	<hr/>
Net current assets		10,507	28,677
		<hr/>	<hr/>
Total assets less current liabilities		172,972	205,105
		<hr/>	<hr/>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company				
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
Unaudited					
Balance at January 1, 2020	8,290	269,212	(66,164)	(40,419)	170,919
Comprehensive income					
Profit for the period	—	—	—	(28,790)	(28,790)
Other comprehensive income					
— currency translation differences	—	—	(1,793)	—	(1,793)
Total comprehensive income for the period ended 30 June 2020	—	—	(1,793)	(28,790)	(30,583)
Transactions with owners					
Dividend to the then shareholders	—	—	—	—	—
Employees share option scheme					
— value of employee services	—	—	1,221	—	1,221
Total transactions with owners, recognised directly in equity	—	—	1,221	—	1,221
Balance as at 30 June 2020	8,290	269,212	(66,736)	(69,209)	141,557
Unaudited					
Balance at January 1, 2019	8,106	265,396	(65,851)	43,906	251,557
Comprehensive income					
Profit for the period	—	—	—	(12,433)	(12,433)
Other comprehensive income					
— currency translation differences	—	—	990	—	990
Total comprehensive income for the period ended 30 June 2019	—	—	990	(12,433)	(11,443)
Transactions with owners					
Dividend to the then shareholders	—	—	—	—	—
Employees share option scheme					
— value of employee services	—	—	700	—	700
Issue of ordinary share for the equity consideration for investment in an associate	184	3,816	(3,816)	—	184
Total transactions with owners, recognised directly in equity	184	3,816	(3,116)	—	884
Balance as at 30 June 2019	8,290	269,212	(67,977)	31,473	240,998

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	Unaudited	Unaudited
Cash flows from operating activities		
Cash generated from operations	4,601	(13,219)
Interest paid	(6,402)	(6,191)
Income tax paid	—	(133)
	<hr/>	<hr/>
Net cash used in operating activities	(1,801)	(19,543)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchases of property, plant and equipment	(137)	(738)
Payment of pledged bank deposits	(542)	(349)
Collection of pledged bank deposits	107	2,211
Purchase of intangible assets	(98)	(2,100)
	<hr/>	<hr/>
Net cash used in investing activities	(670)	(976)
	<hr/>	<hr/>
Cash flows from financing activities		
Proceeds from borrowings	30,000	16,566
Repayments of borrowings	(26,129)	(47,732)
Acquisition of interest in a subsidiary	—	—
Dividends paid to the then shareholders	—	—
	<hr/>	<hr/>
Net cash generated from/(used in) financing activities	3,871	(31,166)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	1,400	(51,685)
Cash and cash equivalents at beginning of period	13,670	59,452
Exchange loss on cash and cash equivalents	(626)	(246)
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	14,444	7,521
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. GENERAL INFORMATION

Century Sage Scientific Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 18 December 2012 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands.

The address of the Company’s registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of (i) application solutions, (ii) system maintenance services and (iii) sales of self- developed products, for the all-media industry in the People’s Republic of China (“**PRC**”). The Group has operations mainly in the mainland China.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 7 July 2014.

This interim financial information was approved for issue by the Board on 21 August 2020.

This interim financial information has not been audited.

2. BASIS OF PREPARATION AND PRESENTATION

This interim financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard 34 (“**HKAS 34**”), “Interim financial reporting”. The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements.

Amendments to HKFRSs effective for the financial year ending 31 December 2020 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

4. SEGMENT INFORMATION

The chief operating decision-maker (“**CODM**”) mainly includes the executive directors, who are responsible for allocating resources, assessing performance of the operating segments and making strategic decisions, the CODM considers the business from both business and geographical perspective.

The Group has the following reportable segments for the relevant periods:

- Application solutions
- System maintenance services
- Sales of self-developed products

The CODM assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling expenses, administrative expenses and finance cost are common costs incurred for the operating segment as a whole and therefore they are not included in the measure of the segments' performance which is used by the CODM.

The segment information provided to the CODM for the reportable segments for the periods is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Segment revenue		
Application solutions	33,552	92,891
System maintenance services	4,431	12,200
Sales of self-developed products	14,974	13,680
Total	52,957	118,771
Segment cost		
Application solutions	(26,606)	(72,821)
System maintenance services	(3,545)	(5,895)
Sales of self-developed products	(4,985)	(5,135)
Total	(35,136)	(83,851)
Segment gross profit		
Application solutions	6,946	20,070
System maintenance services	886	6,305
Sales of self-developed products	9,989	8,545
Total	17,821	34,920
Depreciation		
Application solutions	1,268	1,658
System maintenance services	167	65
Sales of self-developed products	566	168
Total	2,001	1,891

5. INVESTMENT IN ASSOCIATES

	Six months ended 30 June 2020 RMB'000
At 1 January 2020	64,998
Addition	–
Share of post-tax profits of an associate	(7,236)
	<hr/>
At 30 June 2020	57,762
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The Group's share of the results in Beijing Gefei Technology Corporation* (北京格非科技股份有限公司) and its aggregated assets and liabilities are shown below:

	Six months ended 30 June 2020 RMB'000
Assets	92,353
Liabilities	52,920
Revenues	21,061
Share of profit	(3,548)
	<hr/>
Percentage held	49%
	<hr/> <hr/>

The Group's share of the results in Beijing Evertop Sports Culture Media Co., Ltd.* (北京永達天恆體育文化傳媒有限公司) and its aggregated assets and liabilities are shown below:

	Six months ended 30 June 2020 RMB'000
Assets	80,522
Liabilities	49,244
Revenues	1,098
Share of profit	(3,688)
	<hr/>
Percentage held	45%
	<hr/> <hr/>

6. OPERATING PROFIT

An analysis of the amounts presented as operating items in the financial information is given below:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Equipment costs	32,886	78,062
Servicing and agency costs	618	3,135
Business development	1,290	1,797
Depreciation and amortisation	5,822	5,817
	<hr/>	<hr/>
	40,616	88,811
	<hr/> <hr/>	<hr/> <hr/>

7. FINANCIAL COSTS

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Finance expenses		
Interest expenses on bank borrowings	(6,024)	(6,220)
Interest expenses on lease liabilities	(80)	–
Interest expenses on amounts do to directors	(86)	–
Interest expenses on amounts do to a shareholder	(228)	–
Net foreign exchange (loss)/gain	(626)	(246)
	<u>(7,044)</u>	<u>(6,466)</u>
Finance income		
— Interest income on short-term bank deposits	16	28
	<u>16</u>	<u>28</u>
Net finance costs	<u>(7,028)</u>	<u>(6,438)</u>

8. INCOME TAX EXPENSE

Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from the Cayman Islands income tax.

Hong Kong profits tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for the six months ended 30 June 2020 on the estimated assessable profit for the period. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the Interim Period.

PRC enterprise income tax (“EIT”)

Entities incorporated in the PRC are subject to EIT. According to the Law of the PRC on EIT (the “**EIT Law**”) effective from 1 January 2008, all PRC enterprises are subject to a standard enterprise income tax rate of 25%, except for enterprises which are allowed to enjoy the preferential policies and provisions as discussed below:

Certain subsidiaries of the Group were qualified as the High and New Technology Enterprise (“**HNTE**”) and the EIT was provided at a preferential tax rate as 15%.

PRC withholding tax

In addition, according to the EIT Law, dividends, interests, rent, royalties and gains on transfers of property received by a foreign enterprise, i.e. a non-China tax resident enterprise, will be subject to PRC withholding tax at 10% or a reduced treaty rate depending on provisions of tax treaty entered between the PRC and the jurisdiction where the foreign enterprise was incorporated. The withholding tax rate is 5% for the parent company in Hong Kong if it is the beneficial owner of the dividend received from the invested enterprises in the PRC and obtained the approval of enjoying the treaty rate from the PRC tax authorities. The withholding tax imposed on the dividend income received from the Group’s PRC entities will reduce the Company’s net income.

The income tax expense of the Group for the Interim Period is analysed as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	Unaudited	Unaudited
Current income tax	–	585
Deferred income tax	(117)	303
	<u> </u>	<u> </u>
Income tax expense	<u>(117)</u>	<u>888</u>

Income tax expense is recognised based on management's estimate at the weighted average annual income tax rate expected for the full financial year.

9. DIVIDENDS

The Board does not recommend the distribution of interim dividend for the Interim Period (2019: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment RMB'000	Other intangible assets RMB'000
Six months ended 30 June 2020		
Net book value or valuation		
Opening amount as at 1 January 2020	37,352	43,947
Additions	137	98
Disposals	–	–
Depreciation	(2,001)	(3,821)
	<u> </u>	<u> </u>
Closing amount as at 30 June 2020	<u>35,488</u>	<u>40,224</u>
Six months ended 30 June 2019		
Net book value or valuation		
Opening amount as at 1 January 2019	40,112	50,170
Additions	738	2,100
Disposals	–	–
Depreciation	(1,891)	(3,926)
	<u> </u>	<u> </u>
Closing amount as at 30 June 2019	<u>38,959</u>	<u>48,344</u>

11. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Included in current assets		
Trade receivables	143,533	153,027
Trade receivables from associates	–	2,691
Less: provision for impairment of trade receivable	(29,153)	(29,210)
Trade receivables — net	114,380	126,508
Other receivables		
Deposit for guarantee certificate over tendering and performance	14,796	18,139
Receivable related to deposit paid for acquisition of a subsidiary	16,934	16,934
Cash advance to staff	4,957	5,183
Contingent considerations receivable	17,755	17,755
Receivable for disposal of a subsidiary	–	2,900
Others	10,077	12,140
	64,519	73,051
Less: provision for impairment of prepayment for acquisition of a subsidiary	(16,934)	(16,934)
	47,585	56,117
Less: Non-current portion		
Trade receivables	7,235	7,108
Receivable for disposal of a subsidiary	17,755	17,755
Less: provision for impairment of trade receivable	(54)	(54)
	24,936	24,809
Current portion	137,029	157,816

As at 31 December 2019 and 30 June 2020, the aging analysis of the trade receivables based on revenue recognition date is as follows:

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Up to 3 months	8,994	43,054
3 to 6 months	18,023	6,795
6 months to 1 year	6,539	10,789
1 to 2 years	13,130	27,079
2 to 3 years	44,659	31,824
Over 3 years	52,188	36,177
	143,533	155,718

12. OTHER CURRENT ASSETS

	As at	
	30 June 2020 RMB'000 Unaudited	31 December 2019 RMB'000 Audited
Prepayment for purchase of goods or services	<u>20,674</u>	<u>27,933</u>

13. CONTRACT LIABILITIES

	As at	
	30 June 2020 RMB'000 Unaudited	31 December 2019 RMB'000 Audited
Contract liability to third party	28,421	57,419
Contract liability to associates	–	33
	<u>28,421</u>	<u>57,452</u>

Contract liabilities primarily consist of the advance from customers for goods or services to be provided.

14. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares HK\$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Balance at 1 January 2020 and 30 June 2020	1,041,243,169	10,412	8,290	269,212	277,502
Balance at 1 January 2019	1,020,300,761	10,203	8,106	265,396	273,502
Issue of ordinary shares for the equity consideration for acquisition of a subsidiary	20,942,408	209	184	3,816	4,000
Balance at 30 June 2019	<u>1,041,243,169</u>	<u>10,412</u>	<u>8,290</u>	<u>269,212</u>	<u>277,502</u>

Issue of ordinary shares for the equity consideration for acquisition of a subsidiary

On 14 May 2019, the Group acquired 100% of the share capital of Satron Technologies Co., Ltd.* (泰德星創(北京)科技有限公司) for a total consideration of RMB5,880,000, of which RMB4,000,000 was settled by way of issuing 20,942,408 new shares of the Company of an equivalent value of RMB4,000,000 to the vendors. The relevant shares were issued on 20 June 2019.

15. SHARE BASED PAYMENTS

(i) Share Award Plan

The Company has adopted a share award plan (the “**Share Award Plan**”) on 24 March 2014, which is administered by a trustee (the “**Trustee**”). The major shareholder of the Company, Cerulean Coast Limited, has reserved and set aside a total of 22,500,000 award shares and held by the Trustee. The Share Award Plan involves granting of existing shares held by the Trustee.

Movement of the awarded shares under the Share Award Plan during the Interim Period is as the following:

	Number of awarded shares
At 1 January 2020 and 30 June 2020	<u>347,836</u>
At 1 January 2019	4,161,344
Vested	(2,370,000)
Forfeited	<u>(900,000)</u>
At 30 June 2019	<u>891,344</u>

The fair value of the awarded shares was calculated based on the market price of the Company’s shares at the respective grant date. There were no shares awarded under the Share Award Plan during the Interim Period.

(ii) Share Option Scheme

The Company has adopted a share option scheme (the “**Share Option Scheme**”) on 13 June 2014.

On 9 April 2015, the Board approved the grant of an option in respect of 14,216,000 shares at the exercise price of HK\$1.84 per share under the option (the “**2015 Scheme**”). The options were divided into 2 tranches at the grant date. The first tranche of 50% of the option can be exercised beginning on the 3rd anniversary of the grant date and the remaining tranche will become exercisable on the 4th anniversary of the grant date.

On 7 April 2016, the Board approved the grant of an option in respect of 13,542,000 shares at the exercise price of HK\$0.77 per share under the option (the “**2016 Scheme**”) representing the following:

Type A: 12,912,000 share options under the 2016 Scheme were divided into 2 tranches at the grant date. The first tranche of 50% of the option can be exercised beginning on the 2nd anniversary of the grant date and the remaining tranche will become exercisable on the 3rd anniversary of the grant date. 8,540,000 share options under Type A was taken as replacement of the outstanding share options under the 2015 Scheme. The related incremental fair value at the date of modification (compared with the 2015 Scheme) would be spread over the vesting period of the new 2016 Scheme.

Type B: The remaining 630,000 share options under the 2016 Scheme were divided into 2 tranches at the grant date. The first tranche of 50% of the option can be exercised beginning on the 3rd anniversary of the grant date and the remaining tranche will become exercisable on the 4th anniversary of the grant date.

On 21 August 2017, the Board approved the grant of an option in respect of 7,200,000 shares at the exercise price of HK\$0.435 per share under the option (the “**2017 Scheme**”). The options were divided into 2 tranches at the grant date. The first tranche of 50% of the option can be exercised beginning on the 3rd anniversary of the date of the employment agreement between the respective grantee and the Group. The remaining tranche will become exercisable on the 4th anniversary of the date.

On 28 November 2018, the Board approved the grant of an option in respect of 57,670,000 shares at the exercise price of HK\$0.222 per share under the option (the “**2018 Scheme**”). The options can be exercised beginning on the 2nd anniversary of the grant date.

Movements in the number of share options outstanding for the Interim Period is as follows:

	Number of share options			
	2015 Scheme	2016 Scheme	2017 Scheme	2018 Scheme
At 1 January 2020	1,018,000	4,758,000	5,000,000	55,670,000
Granted	—	—	—	—
Lapsed	(1,018,000)	(4,758,000)	—	(880,000)
At 30 June 2020	—	—	5,000,000	54,790,000

The Directors have used the binomial model to determine the fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, was agreed by the management of the Group in applying the Binomial Model, which are summarised below.

	2017 Scheme	2018 Scheme
Risk free rate	1.30%	2.24%
Dividend yield	1.38%	0.00%
Expected volatility	48.38%	53.50%

16. BORROWINGS

	As at 30 June 2020 RMB'000	31 December 2019 RMB'000
Non-current		
Bank and other borrowings — secured	20,000	21,257
	20,000	21,257
Current		
Bank and other borrowings — secured	127,180	122,052
short term bank borrowings	127,180	122,052
Total borrowings	147,180	143,309

As at 30 June 2020, bank borrowings of RMB48,000,000 (31 December 2019: RMB50,000,000) were secured by the buildings of the Group, net book value of which amounted to RMB31,681,000 (31 December 2019: RMB32,921,000) and were guaranteed by two independent third parties, Beijing Zhongguancun Sic-Tech Financing Guaranty Co., Ltd, and Beijing Culture Sci-Tech Financing Guaranty Co., Ltd.

17. TRADE AND OTHER PAYABLES

	As at	
	30 June 2020 RMB'000 Unaudited	31 December 2019 RMB'000 Audited
Trade payables	54,395	58,978
Trade payables to associates	8,187	1,714
Other taxes payable	18,213	18,994
Employee benefits payable	9,209	8,094
Amounts due to an associate	–	821
Amounts due to directors	3,638	2,630
Amounts due to a shareholder	10,035	9,511
Accrual for professional service fee	1,504	1,500
Compensation payable for a legal dispute (<i>Note 19</i>)	–	3,437
Others	13,798	9,372
	<u>118,979</u>	<u>115,051</u>

At 30 June 2020, the aging analysis of the trade payables based on invoice date is as follows:

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Up to 3 months	24,954	40,335
3 to 6 months	4,996	2,817
6 months to 1 year	14,597	11,435
1 to 2 years	14,339	2,935
2 to 3 years	1,193	531
Over 3 years	2,503	2,639
	<u>62,582</u>	<u>60,692</u>

18. EARNINGS PER SHARE

(a) Basic

Basic earnings per share for the six months ended 30 June 2019 and 2020 are calculated by dividing the profit of the Group attributable to owners of the Company by the weighted average number of ordinary shares deemed to be in issue during each respective year:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Loss attributable to owners of the Company (in RMB'000)	(28,790)	(12,434)
Weighted average number of ordinary shares in issue	<u>1,041,243</u>	<u>1,041,243</u>
Basic earnings per share (RMB cents per share)	<u>(2.76)</u>	<u>(1.19)</u>

(b) Diluted

Potential dilutive ordinary shares are not included in the calculation of diluted earnings per share because they are anti-dilutive. The diluted earnings per share equal to the basic earnings per share.

19. CONTINGENCIES

In March 2014, one of the subsidiaries of the Group was involved in a contractual dispute with a supplier of television broadcasting systems (the “**Claimant**”). The Claimant supplied certain television broadcasting systems to such subsidiary, who provided the application solutions services for the systems to a client in Hunan (the “**Client**”), the end-user of the systems. The contractual claim amounting to RMB6.77 million was brought by the Claimant against such subsidiary and the Client to the outstanding amount payable for the sale of the systems.

In October 2017, the court decided that such subsidiary was not liable for compensation. The Claimant then appealed to the higher people’s court and brought with total claims of about RMB9.99 million against such subsidiary and the Client. As at 31 December 2017, the Directors consider that the expected outcome of the legal dispute will not have a material adverse effect on the financial statements and therefore, no provision has been made.

According to the written judgement of the higher people’s court in June 2018, it was decided that such subsidiary and the Client were jointly liable for the compensation and other expenses amounted to approximately RMB7.60 million. In September 2018, the Claimant and such subsidiary entered into a settlement agreement to reduce the compensation to RMB5.57 million in instalments within one year, out of which RMB4.57 million was paid as at 31 December 2019. During the year ended 31 December 2019, a late payment penalty of RMB2.43 million was charged by the Claimant. The remaining balance has been subsequently settled in January 2020.

BUSINESS REVIEW

While there are continuing uncertainties surrounding the global politics and economy, the outbreak of coronavirus disease 2019 (“**COVID-19**”) has brought a negative impact in overall market sentiment and the Group’s financial performance in the first half of the year 2020 was adversely affected. The COVID-19 has posed significant challenges to the Group’s business activities and has caused operational delays to some extent.

However, to lower the negative impact from the outbreak of COVID-19, during the Interim Period, the Group’s management has closely monitored the market conditions in the PRC and has put in place several contingency measures such as employees remote working and application of employees social insurance relief from the government which enabled the Group to reduce the operating costs to a certain degree.

Despite the overall erosion in market sentiment during the Interim Period, the Group long commenced and continued with the research and development (“**R&D**”) of the relevant projects and products which adopted new technologies such as 5G/4K ultra-high-definition (UHD) and the sales of self-developed products of the Group remained active in the industry. During the Interim Period, the Group had been working closely with its business partners such as China Telecom and Huawei to pioneer the co-development of 5G UHD solutions.

FINANCIAL REVIEW

Revenue

The Group’s revenue decreased by approximately 55.4% from approximately RMB118.8 million for the six months ended 30 June 2019 to approximately RMB53.0 million for the six months ended 30 June 2020. The decrease was due to the outbreak of COVID-19 in late 2019 which led to an overall erosion in market sentiment. The revenue from the applications solutions segment decreased by approximately 63.9%. Comparing with the Corresponding Period, the revenue from the system maintenance services has decreased by approximately 63.7% from approximately RMB12.2 million to approximately RMB4.4 million due to the decreased demand for services to maintain the customers facilities during the Interim Period. Thanks to the increasing demand for the new high technology products, the revenue from the sales of self-developed products segment increased by approximately 9.5% compared to the Corresponding Period. The table below sets out the Group’s segment revenue for the six months ended 30 June 2019 and 2020 respectively:

	For the six months ended 30 June			
	2020		2019	
	<i>RMB’000</i>	<i>% of total revenue</i>	<i>RMB’000</i>	<i>% of total revenue</i>
Segment revenue				
Application solutions	33,552	63.4%	92,891	78.2%
System maintenance services	4,431	8.4%	12,200	10.3%
Sales of self-developed products	14,974	28.3%	13,680	11.5%
Total	52,957	100.0%	118,771	100.0%

Application solutions

Revenue generated by the Group's application solutions business segment represented approximately 78.2% and 63.4% of the total revenue of the Group for the Corresponding Period and the Interim Period, respectively. Such revenue has decreased from approximately RMB92.9 million for the Corresponding Period to approximately RMB33.6 million for the Interim Period, representing a decrease of approximately 63.9%. The decrease was mainly attributable to the outbreak of COVID-19 in late 2019 which led to an overall erosion in market sentiment.

System maintenance services

Revenue from the system maintenance services business segment represented approximately 10.3% and 8.4% of the total revenue of the Group for the Corresponding Period and the Interim Period, respectively, and decreased from approximately RMB12.2 million for the Corresponding Period to approximately RMB4.4 million for the Interim Period, representing a decrease of approximately 63.7%. Such decrease was mainly attributable to the decrease in demand for onsite support services during the Interim Period because of the outbreak of COVID-19 in late 2019.

Sales of self-developed products

Revenue from the sales of self-developed products business segment represented approximately 11.5% and 28.3% of the total revenue of the Group for the Corresponding Period and the Interim Period, respectively, and increased from approximately RMB13.7 million for the Corresponding Period to approximately RMB15.0 million for the Interim Period, representing an increase of approximately 9.5%. Under the rapid development of 5G technology, the Group continued with the R&D of self-developed products and maintained long-term stable cooperative relationships with its business partners.

Cost of sales

For the six months ended 30 June 2019 and 2020, the Group's cost of sales was approximately RMB83.9 million and RMB35.1 million respectively, representing a decrease of approximately 58.1%. The decline in percentage in cost is higher than the decline in sales, representing an overall improvement in gross profit margin. The following table sets forth the cost of sales for each business segment for the six months ended 30 June 2019 and 2020 respectively:

	For the six months ended 30 June			
	2020		2019	
	<i>RMB'000</i>	<i>% of total cost</i>	<i>RMB'000</i>	<i>% of total cost</i>
Segment cost of sales				
Application solutions	26,606	75.7%	72,821	86.8%
System maintenance services	3,545	10.1%	5,895	7.0%
Sales of self-developed products	4,985	14.2%	5,135	6.1%
Total	35,136	100.0%	83,851	100.0%

The Group's cost of sales for the application solutions segment decreased by approximately 63.5% for the Interim Period as compared to the Corresponding Period, which was primarily due to the decrease in revenue of the application solutions segment. The cost of sales for the system maintenance services segment decreased by approximately 39.9% for the Interim Period as compared to the Corresponding Period, which was primarily due to the decrease in revenue of the system maintenance services segment. The cost of sales of the sales of self-developed products segment decreased by approximately 2.9% due to the lower amortisation cost of R&D during the Interim Period as compared to the Corresponding Period.

Gross profit and gross profit margin

For the six months ended 30 June 2019 and 2020, the Group's gross profit was approximately RMB34.9 million and RMB17.8 million respectively, representing a decrease of approximately 49.0%. However, the Group's gross profit margin improved from approximately 29.4% for the Corresponding Period to approximately 33.7% for the Interim Period. The following table sets forth the gross profit and gross profit margin of each of the Group's segments during the periods:

Segment gross profit and gross profit margin

	For the six months ended 30 June			
	2020		2019	
	<i>RMB'000</i>	<i>% of Gross profit margin</i>	<i>RMB'000</i>	<i>% of Gross profit margin</i>
Segment gross profit and gross profit margin				
Application solutions	6,946	20.7%	20,070	21.6%
System maintenance services	886	20.0%	6,305	51.7%
Sales of self-developed products	9,989	66.7%	8,545	62.5%
	<u> </u>		<u> </u>	
Total	<u>17,821</u>	33.7%	<u>34,919</u>	29.4%

For the application solutions segment, the Group noted a decrease in the gross profit margin from approximately 21.6% for the Corresponding Period to approximately 20.7% for the Interim Period. The Group believes the decrease was within a reasonable range in its normal operation.

For the system maintenance services segment, the Group noted a decrease of gross profit margin from approximately 51.7% for the Corresponding Period to approximately 20.0% for the Interim Period. The decrease was due to some of the system products approaching the end-of-life which carry higher repair costs, thus the gross margin for the system maintenance services segment decreased during the Interim Period. On the other side, this is also a good sign showing that there is a strong demand for the upgrade of systems to the new UHD systems which the Board expects to cast excellent opportunities to the Group.

For the sales of self-developed products segment, the gross profit margin increased from approximately 62.5% for the Corresponding Period to approximately 66.7% for the Interim Period. The increase was due to the continued improvement of the cost structures of the self-developed products of the Group.

Selling expenses

The selling expenses for the six months ended 30 June 2019 and 2020 were approximately RMB9.3 million and RMB5.1 million respectively, representing a decrease of approximately 44.7%. The decrease in selling expenses was due to the decrease in marketing activities as a result of the restrictions in social activities because of the outbreak of COVID-19.

Administrative expenses

The administrative expenses for the six months ended 30 June 2019 and 2020 were approximately RMB22.9 million and RMB23.2 million respectively, representing an increase of approximately 1.2%. The slight increase in administrative expenses was due to the increase in impairment loss of assets, depreciation and amortisation cost of approximately RMB2.3 million in aggregate (RMB7.8 million for the Interim Period and RMB5.5 million for the Corresponding Period), which was partly offset by the decrease in other administrative expense of approximately RMB2.0 million. The decrease in other administrative expense was mainly due to the supportive government policies on social security.

Research and development expenses

The R&D expenses for the six months ended 30 June 2019 and 2020 were approximately RMB10.0 million and RMB7.9 million respectively, representing a decrease of approximately 21.4%. The Group continued to invest in the R&D to maintain the leading edge technology in the industry.

Finance costs

For the six months ended 30 June 2019 and 2020, the net finance costs of the Group were approximately RMB6.4 million and RMB7.0 million respectively, representing an increase of approximately 9.2%. The finance costs of approximately RMB6.4 million for the Corresponding Period consisted of interest expenses of approximately RMB6.2 million and exchange loss of approximately RMB0.2 million. During the Interim Period, the finance costs of approximately RMB7.0 million was composed of interest expenses of approximately RMB6.4 million and exchange loss of RMB0.6 million. The increase in interest expenses was due to the increase in borrowings during the Interim Period.

Income tax expense

Income tax expense amounted to RMB0 (Nil) for the six months ended 30 June 2019 and 2020.

Loss for the Interim Period

As a result of the aforementioned factors, loss of the Company increased from a net loss of approximately RMB14.5 million for the Corresponding Period to a net loss of approximately RMB29.5 million for the Interim Period, representing an increase of approximately 1.0 times. Deducting the minority interests, the loss attributable to the owners of the Company increased from a net loss of approximately RMB12.4 million for the Corresponding Period to a net loss of approximately RMB28.8 million for the Interim Period, representing an increase of approximately 1.3 times.

Liquidity, financial resource and capital structure

Net cash used in the Group's operating activities amounted to approximately RMB1.8 million for the Interim Period while net cash used in the Group's operating activities amounted to approximately RMB19.5 million for the Corresponding Period. The net cash outflow of the Group's operating activities during the Interim Period mainly arose from the decrease in contract liabilities of approximately RMB29.0 million, which was partly offset by the decrease in inventories and trade receivable of approximately RMB26.1 million in aggregate, which resulted in a net outflow of approximately RMB1.8 million for the Interim Period.

Net cash used in the Group's investing activities amounted to approximately RMB0.7 million for the Interim Period while net cash generated from the Group's investing activities amounted to approximately RMB1.0 million for the Corresponding Period. The net cash outflow for the Interim Period was mainly used in payment of pledged bank deposits.

Net cash generated from in the Group's financing activities amounted to approximately RMB3.9 million for the Interim Period while the net cash used in the Group's financing activities amounted to approximately RMB31.2 million for the Corresponding Period. The net cash generated from financing activities for the Interim Period was mainly attributable to the increase in other borrowings.

As at 30 June 2020, the Group had total assets of approximately RMB461.3 million (31 December 2019: approximately RMB515.0 million) which was financed by current liabilities of approximately RMB288.3 million (31 December 2019: approximately RMB310.0 million) and shareholders' equity of approximately RMB152.3 million (31 December 2019: approximately RMB182.3 million).

As at 30 June 2020, the Group's current ratio (which is calculated by dividing current assets by current liabilities) was 1.04 (31 December 2019: 1.09).

The cash and cash equivalents of the Group as at 30 June 2020 were mainly denominated in Hong Kong Dollar (“**HKD**”), the United States Dollar (“**USD**”), Great British Pound (“**GBP**”), Euro and Renminbi (“**RMB**”).

Charge over assets

As at 30 June 2020, bank borrowings of RMB48 million (31 December 2019: RMB50 million) were secured by the buildings of the Group, net book value of which amounted to approximately RMB31.7 million (31 December 2019: approximately RMB32.9 million), and were guaranteed by two independent third parties, namely Beijing Zhongguancun Sic-Tech Financing Guaranty Co., Ltd., and Beijing Culture Sci-Tech Financing Guaranty Co., Ltd..

Gearing position

The gearing ratio, which represented total borrowings divided by total equity multiplied by 100%, was approximately 83.9% and 104.0% respectively as of 31 December 2019 and 30 June 2020. The total borrowings of the Group increased from approximately RMB143.3 million as at 31 December 2019 to approximately RMB147.2 million as at 30 June 2020. Such increase was mainly attributable to the new borrowing proceeds (repayment: approximately RMB26.1 million; new borrowing proceeds: approximately RMB30.0 million).

Foreign exchange exposure

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, HKD, GBP and Euro. Foreign exchange risk arose from future commercial transactions, recognised assets and liabilities which are denominated in non-RMB. The management of the Group has set up a policy to require the Company's subsidiaries to manage their foreign exchange risk against their functional currency. The Company's subsidiaries are required to control the exposure of the foreign currency during their business operation. The foreign currency exposure is mainly due to the purchase of equipment from all over the world and the management controls the payment schedule to reduce the foreign exchange risk. Save for certain bank balances and accounts payables in USD and HKD, the Group considers that the impact of foreign exchange exposure to the Group was minimal and there was no significant adverse effect on normal operations. During the Interim Period, the Group did not commit to any financial instruments to hedge its exposure to foreign exchange risk. However, the management of the Group will monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

Other than the bank balances with variable interest rates, the Group has no other significant interest-bearing assets. The management does not anticipate significant impact on interest-bearing assets resulting from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. The Group has not hedged its cash flow interest rate risks.

Significant investments, mergers and acquisitions

During the Interim Period, the Group had no significant investments, mergers and acquisitions.

Contingent liabilities

As at 30 June 2020, except for the legal dispute as disclosed in Note 19 of this interim results announcement, the Directors were not aware of any other significant events that would have resulted in material contingent liabilities.

Dividends

The Board does not recommend the distribution of interim dividend for the Interim Period (2019: Nil).

Employees and remuneration policies

As at 30 June 2020, the Group had a total of 211 employees (as at 31 December 2019: 223 employees).

The emoluments payable to employees of the Group are determined based on their responsibilities, qualifications, experiences and the role taken as well as the industry practices.

CAPITAL STRUCTURE

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders of the Company through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from the prior years. The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued capital and reserves.

SHARE AWARD PLAN AND SHARE OPTION SCHEME

In order to recognise and reward the contribution of certain eligible participants to the growth and development of the Group, the Company adopted the Share Award Plan on 24 March 2014. The Share Award Plan does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). Details of the Share Award Plan and movement in the awarded shares during the Interim Period will be set out in the 2020 interim report of the Company.

In order to reward or make incentive to the employees, the Directors and other selected participants for their contributions to the Group, the Company conditionally adopted the Share Option Scheme on 13 June 2014. Details of the Share Option Scheme and movement in the share options during the Interim Period will be set out in the 2020 interim report of the Company.

FUTURE OUTLOOK

The global outbreak of COVID-19 has had an unprecedented impact on the global macroeconomic and political situation as well as caused serious disruption to the Group's operations since the beginning of 2020. The current headwind is expected to persist in the remainder of the year and thus the future is still full of challenges and restrictions on social activities will remain to some extent.

Though the macro-economy in China is still under significant pressure due to the COVID-19 and the complicated and everchanging international economic situation, the Directors still believe that 5G is one of the definite directions for global technological and economic development, while the Group has long commenced the R&D of 5G self-developed products, therefore, there are still favourable opportunities and broad prospects for the development of the Group's overall business.

On 6 July 2020, the China Media Group (中央廣播電視總台) has promulgated "The White Paper on 5G Media Application (2020)"* (《中央廣播電視台總台5G媒體應用白皮書(2020版)》), which emphasised speeding up and promoting the deployment and application of 5G technologies to media applications from 4K collection and transmission, as well as 4K mobile production to distribution of virtual reality. The Group will continue to strengthen the marketing and management of the R&D of the 5G self-developed products of the Group. The Group will also explore further collaboration of its wholly-owned R&D companies together with its other invested R&D associates, and dedicate to enhance the core competitiveness of the Group, better cope with potential fluctuations and seize opportunities for the industry development.

EVENTS AFTER THE INTERIM PERIOD

Reference is made to the Company's announcements dated 9 November 2018, 4 December 2018 and 8 July 2020 (the "**Announcements**") relating to the disposal of the Sale Interest to the Purchaser. Terms used in this paragraph shall have the same meanings as defined in the Announcements. On 8 July 2020 (after trading hours), the Subsidiary, the Purchaser and the Target Company entered into a supplemental agreement to the equity transfer agreement dated 9 November 2018, pursuant to which the parties agreed to amend, inter alia, the Profit Guarantee Period from the three years ending 31 December 2020 to the two years ended 31 December 2019 together with the year ending 31 December 2021. Accordingly, references to the Profit Guarantee Period in the Agreement as disclosed in the Relevant Disclosures shall be amended. Save as the aforesaid, all other terms and conditions in the Agreement shall remain unchanged and continue in full force and effect.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Interim Period.

CORPORATE GOVERNANCE

Throughout the Interim Period, the Company continued to apply the principles set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the “**CG Code**”). The Directors consider that the Company has complied with all the applicable code provisions under the CG Code, save as the following:

- Under the code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Currently, the roles of the chairman and the chief executive officer (the “**CEO**”) of the Group was not separated and was performed by the same individual, Mr. Lo Chi Sum, who acted as both the chairman and CEO throughout the Interim Period. The Directors will meet regularly to consider major matters affecting the operations of the Group. As such, the Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Group and believes that this structure will enable the Group to make and implement decisions promptly and efficiently.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “**Model Code**”) (with certain modifications).

The Company has made specific enquiry of all Directors and all Directors have confirmed with the Company that they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions for the Interim Period.

AUDIT COMMITTEE

The Audit Committee comprises three members, all of whom are independent non-executive Directors, namely Mr. Hung Muk Ming, Dr. Ng Chi Yeung, Simon and Mr. Mak Kwok Wing. Mr. Hung Muk Ming is the chairman of the Audit Committee. The Audit Committee has written terms of reference in compliance with the Listing Rules and the CG Code.

The Audit Committee has in conjunction with the management reviewed the accounting principles and practices adopted by the Group and discussed risk management, internal controls and financial reporting matters of the Group. The Audit Committee has no disagreement with the accounting treatment adopted by the Company.

PUBLICATION

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.css-group.net) respectively. The 2020 interim report will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Century Sage Scientific Holdings Limited
Lo Chi Sum
Chairman

Hong Kong, 21 August 2020

As at the date of this announcement, the executive Directors are Mr. Lo Chi Sum, Mr. Leung Wing Fai, Mr. Wong Kwok Fai and Mr. Geng Liang, and the independent non-executive Directors are Dr. Ng Chi Yeung, Simon, Mr. Hung Muk Ming and Mr. Mak Kwok Wing.

* *For identification purposes only*