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Contel Technology Company Limited

康特隆科技有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1912)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2020 was approximately US\$153.9 million, representing an increase of 51.7% when compared with that of approximately US\$101.5 million for the year ended 31 December 2019.
- Profit for the year ended 31 December 2020 of the Group was approximately US\$2.0 million, representing a decrease of 19.6% when compared with that of approximately US\$2.5 million for the year ended 31 December 2019.
- Basic earnings per share for the year ended 31 December 2020 was amounted to HK1.96 cents (for the year ended 31 December 2019 amounted to HK2.81 cents).
- The Board does not recommend payment of a final dividend for the year ended 31 December 2020 (for the year ended 31 December 2019: Nil).

ANNUAL RESULTS

The Board of Directors (the “**Board**”) of Contel Technology Company Limited (the “**Company**”) hereby announces the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2020 (the “**Year**”) together with selected explanatory notes and the relevant comparative figures for 31 December 2019 which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) as below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Revenue	4	153,919	101,461
Cost of sales		(144,544)	(89,987)
Gross profit		9,375	11,474
Other income	4	891	161
Selling and distribution expenses		(2,538)	(1,726)
General and administrative expenses		(4,022)	(2,502)
Provision for allowance for expected credit loss on trade receivables	11	(268)	(111)
Listing expenses		—	(2,709)
Finance costs	5	(889)	(1,027)
Profit before income tax	6	2,549	3,560
Income tax expense	7	(528)	(1,047)
Profit for the year attributable to owners of the Company		2,021	2,513
Other comprehensive income/(loss)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translating foreign operations		142	(21)
Other comprehensive income/(loss) for the year attributable to the owners of the Company		142	(21)
Total comprehensive income for the year attributable to owners of the Company		2,163	2,492
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share attributable to owners of the Company			
Basic and diluted	8	1.96	2.81

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,054	809
Intangible assets		33	89
Goodwill		279	261
Life insurance policy deposits		1,427	1,403
Financial assets at fair value through other comprehensive income	10	6,160	—
Deferred tax assets		56	—
		<u>9,009</u>	<u>2,562</u>
Current assets			
Inventories		11,762	12,909
Trade and bills receivables	11	35,601	25,696
Prepayments, deposits and other receivables		4,022	9,794
Amounts due from related parties		13	12
Pledged bank deposits		905	1,229
Cash and cash equivalents		6,042	6,263
Tax Recoverable		435	—
		<u>58,780</u>	<u>55,903</u>
Current liabilities			
Trade and bills payables	12	21,063	23,211
Accruals, contract liabilities and other payables		1,082	2,050
Promissory notes		6,160	—
Lease liabilities		362	382
Bank borrowings		7,103	1,401
Tax payable		—	1,353
		<u>35,770</u>	<u>28,397</u>
Net current assets		<u>23,010</u>	<u>27,506</u>
Total assets less current liabilities		<u>32,019</u>	<u>30,068</u>
Non-current liabilities			
Lease liabilities		67	279
Net assets		<u>31,952</u>	<u>29,789</u>
EQUITY			
Share capital		1,032	1,032
Reserves		30,920	28,757
Total equity		<u>31,952</u>	<u>29,789</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. Corporate information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 August 2016. The registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is Unit No. A, 13th Floor, Block 1, Leader Industrial Centre, Nos.188-202 Texaco Road, Tsuen Wan, New Territories, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 July 2019.

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

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on Main Board of the Stock Exchange (“**Listing Rules**”).

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries. The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis, except for financial assets at fair value through other comprehensive income (“**FVTOCI**”), which is measured at fair value.

The functional currency of the Company is Hong Kong dollars (“**HK\$**”) and the investment holding subsidiary incorporated in the British Virgin Islands (the “**BVI**”) and subsidiaries incorporated in Hong Kong have their functional currency in United States Dollar (“**US\$**”), and subsidiaries established in the PRC have their functional currency in Renminbi (“**RMB**”). The consolidated financial statements have been presented in US\$ as the directors of the Company consider that it is more appropriate to adopt US\$ as the Group’s and the Company’s presentation currency. All values are rounded to the nearest thousand except when otherwise indicated.

(a) *Adoption of amendments to HKFRSs*

The Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, in the current year:

Amendments to HKAS1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

In addition, in the preparation of the consolidated financial statements for the year ended 31 December 2020, the Group has early applied the Amendments to HKFRS 16 *Covid-19-Related Rent Concessions*, which are mandatorily effective for annual reporting periods beginning on or after 1 June 2020.

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions

The Group has early applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* (“**HKFRS 16**”) if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the consolidated profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening retained profits at 1 January 2020. The Group has benefited from 3 months' waiver of partial lease payments on the lease. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of approximately US\$4,000, which has been recognised as other income in the consolidated profit or loss for the current year.

(b) Amendments to HKFRSs that issued but not yet effective for the year ended 31 December 2020

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments to HKFRSs which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these consolidated financial statements. These include the followings which may be relevant to the Group.

		Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2	1 January 2021
Amendments to HKFRS 3 (Revised)	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020	1 January 2022
Amendments to HKAS 1 (Revised)	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)	1 January 2023
HKFRS 17	Insurance Contracts and related amendments	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in the process of making an assessment of what the impact of these amendments standards is expected to be in the period of initial application. So far the Group has not identified any aspects of the new standards which may have a significant impact on the consolidated financial statements. The actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's annual report for the year ending 31 December 2021. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in the consolidated financial statements.

3. Segment information

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

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

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Year ended 31 December		
Revenue recognised at a point in time		
Hong Kong	103,825	68,651
The PRC	50,094	32,810
	<u>153,919</u>	<u>101,461</u>

	2020	2019
	<i>US\$'000</i>	<i>US\$'000</i>
At 31 December		
Non-current assets		
Hong Kong	958	344
The PRC	408	815
	<u>1,366</u>	<u>1,159</u>

Revenue from customers which individually contributed over 10% of the total revenue of the Group during the year is as follows:

	2020	2019
	<i>US\$'000</i>	<i>US\$'000</i>
Customer A	41,019	11,856
Customer B	22,058	11,480

During the year, the Group generated revenue primarily from the sale of five categories of ICs products and electronic components, comprising for: (i) mobile devices and smart charging; (ii) motor control; (iii) sensor and automation; (iv) light-emitting diode (“**LED**”) lighting; and (v) radio frequency (“**RF**”) power. The following table sets out the breakdown of the revenue recognised at a point in time by product category:

	2020	2019
	<i>US\$'000</i>	<i>US\$'000</i>
Sales of IC products and electronic components:-		
Mobile devices and smart charging	116,475	76,550
Motor control	17,042	11,843
Sensor and automation	14,480	4,633
LED lighting	3,759	4,492
RF power	2,163	3,943
	<u>153,919</u>	<u>101,461</u>

4. Revenue and other income

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

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
<i>Revenue from contract with customers within the scope of HKFRS 15, types of goods or services</i>		
Sale of ICs products and electronic components	<u>153,919</u>	<u>101,461</u>

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

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
<i>Other income</i>		
Bank interest income	8	80
Exchange gain, net	641	—
Government grants (<i>Note (a)</i>)	178	—
Imputed interest income on life insurance policy deposits	46	43
Rent concessions (<i>Note (b)</i>)	4	—
Others	14	38
	<u>891</u>	<u>161</u>

Notes:

- (a) The amount primarily represents the government grants have been received during the year ended 31 December 2020 in respect of subsidy for staff costs according to the Employment Support Scheme (“ESS”), which was launched by The Government of the Hong Kong Special Administrative Region, which aims to provide time-limited financial support to the Group for the period from June to November 2020 to retain employees who may otherwise redundant. There are no unfulfilled conditions or other contingencies attached to these subsidies.
- (b) The amount represents rent concessions from the landlord in relation to the Covid-19 pandemic during the year ended 31 December 2020. The concession does not constitute to the lease modification by applying the practical expedient that meets the conditions in paragraph 46B of HKFRS 16.

5. Finance costs

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Interest on bills payables	759	887
Interest on discounted bills	10	75
Interest on lease liabilities	24	39
Interest on short-term bank loans	96	26
	<u>889</u>	<u>1,027</u>

6. Profit before income tax

Profit before income tax is arrived at after charging/(crediting):

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Auditor's remuneration		
— Annual audit services	102	77
— Other services	22	418
Amortisation of intangible assets	74	72
Amortisation of life insurance policy deposits	22	34
Cost of inventories recognised as expenses	143,467	89,987
Writer down of inventories	26	35
Depreciation of property, plant and equipment	557	475
Employee benefit expenses (including directors' remuneration) (<i>note (i)</i>)		
— Salaries, allowances and bonus	4,149	2,090
— Pension scheme contributions		
— defined contribution plan	217	321
Exchange (gain)/loss, net	<u>(641)</u>	<u>56</u>

Note:

- (i) Employee benefit expenses (including directors' remuneration) of approximately US\$594,000 (2019: US\$401,000), US\$1,467,000 (2019: US\$835,000) and US\$2,305,000 (2019: US\$1,175,000) are included in cost of sales, selling and distribution expenses and general and administrative expenses respectively.

7. Income tax expense

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Current tax expenses		
— Hong Kong Profits Tax	192	950
— PRC Corporate Income Tax	392	97
	<u>584</u>	<u>1,047</u>
Deferred tax	(56)	—
	<u><u>528</u></u>	<u><u>1,047</u></u>

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) Under the two-tiered profits tax rates regime in Hong Kong, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year (2019: 16.5%).

- (iii) The provision for the PRC Corporate Income Tax was based on the statutory rate of 25% of the assessable profits of subsidiaries which carried on businesses in the PRC during the year (2019: 25%).

8. Earnings per share

(a) Basic earnings per share

The basic earnings per share for the year ended 31 December 2020 is calculated based on the profit for the year attributable to owners of the Company of approximately US\$2,021,000 and the weighted average of 800,000,000 ordinary shares in issue during the year.

The basic earnings per share for the year ended 31 December 2019 was calculated based on the profit for the year attributable to owners of the Company of approximately US\$2,513,000 and the weighted average of 692,603,000 ordinary shares, comprising:

- (i) 100,000 ordinary shares issued as at the date of the prospectus of the Company dated 29 June 2019 and 599,900,000 ordinary shares issued pursuant to the capitalisation issue on the completion of the initial public offering, as if the above total of 600,000,000 ordinary shares were outstanding throughout the year ended 31 December 2019; and
- (ii) 200,000,000 ordinary shares issued on 16 July 2019 by initial public offering.

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the year ended 31 December 2020 (2019: Nil).

9. Dividends

No interim or final dividend was declared for the year (2019: Nil).

On 27 March 2020, a bonus issue on the basis of one bonus share for every ten existing shares held by the shareholders had been proposed by the Directors, which was rejected by the shareholders at the annual general meeting dated on 28 May 2020.

10. Financial assets at fair value through other comprehensive income

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Financial assets at FVTOCI		
— Unlisted equity securities in BVI, Cosmic Paramount Limited (“Cosmic”)	<u>6,160</u>	<u>—</u>

During the year, the Group entered into (i) the conditional Sale and Purchase Agreement together with the supplemental agreement with the independent vendor in relation to the acquisition of 781 shares of Cosmic (the “**Acquisition**”) and (ii) conditional Subscription Agreement together with the supplemental agreement to subscribe 148 shares of Cosmic (the “**Subscription**”). After the completion of the Acquisition and the Subscription on 31 December 2020, the Group held in aggregate 9.07% equity interest in Cosmic.

The considerations of the Acquisition and the Subscription were settled by the issuance of promissory notes with an aggregate principal amount of approximately HK\$49,955,000 (equivalent to approximately US\$6,446,000) at the fair value of approximately HK\$47,737,000 (equivalent to approximately US\$6,160,000) on 31 December 2020, which was, in the opinion of the directors of the Company, approximated to the fair value of the equity interest in Cosmic measured by the independent valuation expert.

The above unlisted equity securities are designated as financial assets at FVTOCI (non-recycling) as the investment is held for long-term strategic purposes. Cosmic, through its operating subsidiary which is incorporated in Hong Kong, is principally engaged in one-stop supply chain financial platform, which provide global supply chain services, booking online by clicking one button.

11. Trade and bills receivables

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Trade receivables	35,600	24,487
Less: allowance for expected credit loss on trade receivables, net	<u>(394)</u>	<u>(126)</u>
Trade receivables, net	35,206	24,361
Bills receivables	<u>395</u>	<u>1,335</u>
	<u>35,601</u>	<u>25,696</u>

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period granted is based on the historical trading and payment records of each customer, generally not more than four months. Extended credit terms may be granted for some major long-term customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The ageing analysis of trade receivables, net of expected credit loss ("ECL") allowances, based on the past due dates, is as follows:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Neither past due nor impaired	20,495	15,317
1–30 days past due	6,936	4,351
31–90 days past due	5,464	2,408
91–120 days past due	651	27
More than 120 days past due	1,660	2,258
	<u>35,206</u>	<u>24,361</u>

The movements in allowances for ECL on trade receivables are as follows:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
At 1 January	126	91
Written off of trade receivables	—	(76)
Allowances for ECL recognised to the consolidated profit or loss	268	111
At 31 December	<u>394</u>	<u>126</u>

The above provision for net allowance for ECL on trade receivables included allowances by using a provision matrix and individually impaired trade receivables. The individually impaired receivables related to customers that were in financial difficulties and all receivables are not expected to be recovered. During the year ended 31 December 2019, the Group has been informed that those customers are under liquidation and unable to repay the trade receivables.

Ageing analysis of the Group's trade receivables, net of ECL allowance, based on the invoice dates, is as follows:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
1–30 days	14,338	9,364
31–90 days	14,527	9,540
91–120 days	3,537	2,161
Over 120 days	2,804	3,296
	35,206	24,361

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

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
1–30 days	154	411
31–90 days	142	700
91–120 days	—	41
Over 120 days	99	183
	395	1,335

As at 31 December 2020, all bills receivables were neither past due nor impaired (2019: Nil).

12. Trade and bills payables

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Trade payables	8,361	10,115
Bills payables	<u>12,702</u>	<u>13,096</u>
	<u>21,063</u>	<u>23,211</u>

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

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
1–30 days	8,017	8,256
31–90 days	324	1,843
91–120 days	5	2
Over 120 days	<u>15</u>	<u>14</u>
	<u>8,361</u>	<u>10,115</u>

At 31 December 2020 and 2019, all bills payables were secured by an assignment over the life insurance policies and pledged bank deposits.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, total revenue increased by 51.7% to US\$153.9 million. The growth was mainly driven by the sales increase of the Group's solutions, in particular applications in the mobile devices and smart charging.

Gross Profit

Gross profit for the year ended 31 December 2020 decreased by 18.3% year-on-year to US\$9.4 million, which was mainly due to main chips used in IoT communication modules in the mobile devices and smart charging which are generally lower profit margin. Gross profit margin decreased from 11.3% to 6.1%.

Other Income

The Group's other income mainly included bank interest income, exchange gain and government grants. For the year ended 31 December 2020, other income increased to US\$891,000, mainly due to the exchange gain and government grants.

Selling and Distribution Expenses

Selling and distribution expenses mainly consist of salaries and benefits for staff, transportation costs, travelling expenses, office utility expenses, business entertainment and marketing expenses and depreciation costs. During the Year, the Group's selling and distribution expenses amounted to US\$2.5 million, an increase of approximately US\$0.8 million when compared with 2019, due to (i) an increase in the staff salaries and bonus in aggregate by approximately US\$0.6 million, and (ii) an increase in the postage and courier charge in aggregate by approximately US\$0.2 million.

General and Administrative Expenses

General and administrative expenses mainly consist of administration expenses including salaries and benefits for the management, administrative, operation support and financial personnel, administrative costs and depreciation expenses relating to property, plant and equipment used for administrative purposes.

During the Year, general and administrative expenses amounted to US\$4.0 million, representing an increase of 60.8% or US\$1.5 million year-on-year, which was mainly attributable to the effect of (i) an increase of director's remuneration, staff salaries and bonus in aggregate by approximately US\$1.1 million and (ii) legal and professional fee.

Finance Costs

During the Year, finance costs amounted to US\$0.9 million, representing an decrease of 13.4% when compared with 2019.

Income Tax Expense

During the Year, income tax expense was US\$0.5 million (2019: US\$1.0 million).

Profit for the Year

As a result of the above factors, the Group's profit for the Year decreased by 19.6% from US\$2.5 million recorded for the year ended 31 December 2019 to US\$2.0 million for the year ended 31 December 2020. The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2020, but represents an extract from the consolidated financial statements for the year ended 31 December 2020 which have been audited by the auditor of the Company, Moore Stephens CPA Limited ("**Moore Hong Kong**") in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The financial information has been reviewed by the Audit Committee and approved by the Board.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group maintained a satisfactory liquidity position supporting business growth. As at 31 December 2020, the Group had cash and cash equivalents of US\$6.0 million (31 December 2019: US\$6.3 million).

The Group recorded net current assets of US\$23.0 million (31 December 2019: US\$27.5 million).

As at 31 December 2020, the gearing ratio of the Group was 37.3% (31 December 2019: 18.9%), which represents net debt divided by the total equity plus net debt. Net debt includes bank borrowings, promissory notes, bills payables, less cash and cash equivalents and pledged bank deposits.

The Group increased its bank loans mainly for securing capital for its business development. At as 31 December 2020, the Group had bank loans amounting to US\$7.1 million (2019: US\$1.4 million).

The annual interest charge of the bank borrowings during the Year ranged from 1.25% to 4.7% (2019: 3.6% to 5.0%).

USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing of HK\$67.8 million (equivalent to approximately US\$8.7 million), after deducting the underwriting fees, commissions and expenses payable by us, have been and will be utilised in the same manner, proportion and the expected timeframe as set out in the prospectus of the Company dated 29 June 2019 under the section headed “Future Plans and Use of Proceeds”. The table below sets out the planned applications of the net proceeds and actual usage up to 31 December 2020:

Use of proceeds	Approximate percentage of total amount	Actual amount of Net Proceeds (HK\$'000)	Actual usage up to 31 December 2020 (HK\$'000)	Unutilised amount as at 31 December 2020 (HK\$'000)	Expected timeline
(i) Financing the revolving purchase payment for our purchases of ICs imposed under the ship-and-debit arrangement	84.1%	57,020	57,020	—	—
(ii) Enhancing our design and R&D capabilities through purchasing testing and R&D equipment	3.7%	2,509	2,509	—	—
(iii) Recruiting and maintaining high calibre talent	9.9%	6,712	6,074	638	Remainder to be utilised by 31 March 2021
(iv) Working capital	2.3%	1,559	1,559	—	—
	<u>100%</u>	<u>67,800</u>	<u>67,162</u>	<u>638</u>	

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 103 employees (31 December 2019: 107 employees). The Group's labour costs (including salaries, bonuses, pension and welfare but excluding directors' and co-chief executives' remuneration) were US\$3.6 million, accounting for 2.3% of its revenue in the Year.

The remunerations of the employees are commensurate with their performance, skills, knowledge, experience and the market trend. Employee benefits provided by the Group include medical insurance scheme and mandatory provident fund. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustments that accommodate the pay levels in the industry. In addition to basic salaries, the employees may be offered with discretionary bonuses and cash awards based on individual performances.

As at 31 December 2020, the Group had not issued or allotted any awarded shares.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company complies or intends to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules, save for Code A.2.1 which requires that the roles of chairman and chief executive officer be separated and performed by different individuals. Mr. Lam is both our Chief Executive Officer and Chairman. Our Board believes that vesting the roles of both Chief Executive Officer and Chairman in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within our Group. Our Group considers that the balance of power and authority of the present arrangement will not be impaired as the Board comprises five other experienced and high-calibre individuals including two other executive Directors and three independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of our Group, the Board will make consultations with appropriate Board committees and senior management. Therefore, our Directors consider that the present arrangement is beneficial to and in the interest of our Company and our Shareholders as a whole and the deviation from Code A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code in each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports after the Listing.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted written guidelines (the “**Written Guidelines**”) on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code for securities transactions by the Directors.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines throughout the period from the Listing Date to the date of this announcement. No incident of non-compliance of the Written Guidelines by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

PUBLIC FLOAT

As at the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2020.

SCOPE OF WORK OF INDEPENDENT AUDITOR

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes to the consolidated financial statements thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Company’s independent auditor, Moore Hong Kong, Certified Public Accountants, to the amounts as set out in the Group’s audited financial statements for the year ended 31 December 2020 and the amounts were found to be in agreement. The work performed by Moore Hong Kong in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Hong Kong.

AUDIT COMMITTEE

The Audit Committee comprises all the three independent non-executive Directors, namely Mr. Dan Kun Lei, Raymond, Mr. Wong Kwun Ho (chairman) and Mr. Lai Man Shun.

The Audit Committee has reviewed together with the management and external auditor the accounting principles and policies adopted by the Group, the annual results and the consolidated financial statements for the year ended 31 December 2020.

The Audit Committee considered that the annual results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

REMUNERATION COMMITTEE

The Remuneration Committee comprises all the three independent non-executive Directors, namely Mr. Dan Kun Lei, Raymond, Mr. Wong Kwun Ho and Mr. Lai Man Shun (chairman).

The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for remuneration of all the Directors and senior management of the Company and making recommendations to the Board on the remuneration packages of individual executive Director and senior management.

NOMINATION COMMITTEE

The Nomination Committee currently comprises of one executive Director, Mr. Lam Keung (chairman), and two independent non-executive Directors, namely, Mr. Lai Man Shun and Mr. Wong Kwun Ho.

The Nomination Committee is mainly responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of the independent non-executive Directors; and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The Nomination Committee formulated the Board diversity policy and the Company has adopted the Board diversity policy. The Company recognises and embraces the benefits of diversity in Board members. Selection of Board members will be based on a range of diversified perspectives, including but not limited to gender, age, ethnicity, cultural and educational background, or professional experience. All Board appointments will be based on merit and the needs of the Company's business while taking into account diversity. The Nomination Committee also monitors the implementation of this policy and reports to the Board on the achievement of the measurable objectives for achieving diversity under this policy.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.conteltechnology.com). The annual report for the year ended 31 December 2020 will be dispatched to the shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

EVENTS AFTER THE REPORTING PERIOD

The Group did not have material subsequent events.

By order of the board of directors of
Contel Technology Company Limited
Lam Keung
Chairman and Executive Director

Hong Kong, 31 March 2021

As at the date of this announcement, the Board comprises Mr. Lam Keung, Mr. Qing Haodong and Mr. Mai Lu and Ms. Cheng Yu Pik as executive directors; Mr. Dan Kun Lei, Raymond, Mr. Wong Kwun Ho and Mr. Lai Man Shun as independent non-executive directors.