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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)**

### **ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021**

The board of directors (the “**Board**”) of Contel Technology Company Limited (the “**Company**”) hereby presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2021 (the “**Period**”), together with comparative figures for the six months ended 30 June 2020 (the “**Preceding Period**”). The audit committee of the Company (the “**Audit Committee**”) has reviewed and discussed with the management of the Company the unaudited interim condensed consolidated financial statements of the Group for the Period.

#### **FINANCIAL HIGHLIGHTS**

	<b>Six months ended</b>	
	<b>30 June 2021</b>	<b>30 June 2020</b>
	<i><b>US\$’000</b></i>	<i><b>US\$’000</b></i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue	<b>121,004</b>	62,961
Gross profit	<b>5,576</b>	4,794
Profit for the period	<b>1,678</b>	1,654

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30 June 2021</b>	30 June 2020
		<i>US\$'000</i>	<i>US\$'000</i>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue	5	<b>121,004</b>	62,961
Cost of sales		<b>(115,428)</b>	(58,167)
<b>Gross profit</b>		<b>5,576</b>	4,794
Other income	5	<b>187</b>	68
Selling and distribution expenses		<b>(991)</b>	(715)
General and administrative expenses		<b>(1,822)</b>	(1,430)
Provision for allowance for expected credit loss on trade receivables		<b>—</b>	(16)
Finance costs	6	<b>(1,069)</b>	(518)
<b>Profit before income tax</b>	7	<b>1,881</b>	2,183
Income tax expense	8	<b>(203)</b>	(529)
<b>Profit for the period attributable to shareholders of the Company</b>		<b><u>1,678</u></b>	<u>1,654</u>
		<i>US cents</i>	<i>US cents</i>
<b>Earnings per share attributable to shareholders of the Company</b>	10		
Basic and diluted		<b><u>0.21</u></b>	<u>0.21</u>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	<b>Six months ended</b>	
	<b>30 June 2021</b>	30 June 2020
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
<b>Profit for the period</b>	<u>1,678</u>	<u>1,654</u>
<b>Other comprehensive (expense)/income</b>		
<i>Item that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences arising on translating foreign operations	<u>31</u>	<u>(13)</u>
<b>Other comprehensive (expense)/income for the period attributable to the owners of the Company</b>	<u>31</u>	<u>(13)</u>
<b>Total comprehensive income for the period</b>	<u><u>1,709</u></u>	<u><u>1,641</u></u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	<i>Notes</i>	<b>30 June 2021 US\$'000 (Unaudited)</b>	31 December 2020 US\$'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		918	1,054
Intangible assets		16	33
Goodwill		279	279
Life insurance policy deposits	<i>11</i>	1,427	1,427
Financial assets at fair value through other comprehensive income	<i>12</i>	6,160	6,160
Deferred tax assets		55	56
		<hr/>	<hr/>
		<b>8,855</b>	9,009
<b>Current assets</b>			
Inventories		8,303	11,762
Trade and bills receivables	<i>13</i>	44,481	35,601
Prepayments, deposits and other receivables		6,317	4,022
Amounts due from related parties	<i>18</i>	13	13
Pledged bank deposits	<i>14</i>	905	905
Cash and cash equivalents	<i>14</i>	5,008	6,042
Tax recoverable		409	435
		<hr/>	<hr/>
		<b>65,436</b>	58,780
<b>Current liabilities</b>			
Trade and bills payables	<i>15</i>	28,769	21,063
Accruals, receipts in advance and other payables		3,663	1,082
Promissory notes		—	6,160
Lease liabilities		284	362
Bank borrowings	<i>16</i>	7,810	7,103
		<hr/>	<hr/>
		<b>40,526</b>	35,770
<b>Net current assets</b>		<hr/> <b>24,910</b> <hr/>	<hr/> 23,010 <hr/>
<b>Total assets less current liabilities</b>		<hr/> <b>33,765</b> <hr/>	<hr/> 32,019 <hr/>
<b>Non-current liabilities</b>			
Lease liabilities		105	67
		<hr/>	<hr/>
<b>NET ASSETS</b>		<hr/> <b>33,660</b> <hr/>	<hr/> 31,952 <hr/>
<b>EQUITY</b>			
Share capital	<i>17</i>	1,032	1,032
Reserves		32,628	30,920
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<hr/> <b>33,660</b> <hr/>	<hr/> 31,952 <hr/>

# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Equity attributable to owners of the Company							
	Share capital US\$'000	Share Premium US\$'000	Other reserve US\$'000	Merger reserve US\$'000	Statutory surplus reserve US\$'000	Translation reserve US\$'000	Retained profits US\$'000	Total US\$'000
<b>At 1 January 2021</b> (Audited)	1,032	12,793	10,076	(7,021)	696	83	14,293	31,952
Profit for the period	—	—	—	—	—	—	1,678	1,678
Foreign currency translation differences for foreign operations	—	—	—	—	—	30	—	30
Total comprehensive income for the period	—	—	—	—	—	30	1,678	1,708
<b>At 30 June 2021</b> (Unaudited)	<u>1,032</u>	<u>12,793</u>	<u>10,076</u>	<u>(7,021)</u>	<u>696</u>	<u>113</u>	<u>15,971</u>	<u>33,660</u>
<b>At 1 January 2020</b> (Audited)	1,032	12,793	10,076	(7,021)	582	(59)	12,386	29,789
Profit for the period	—	—	—	—	—	—	1,654	1,654
Foreign currency translation differences for foreign operations	—	—	—	—	—	(13)	—	(13)
Total comprehensive income for the period	—	—	—	—	—	(13)	1,654	1,641
<b>At 30 June 2020</b> (Unaudited)	<u>1,032</u>	<u>12,793</u>	<u>10,076</u>	<u>(7,021)</u>	<u>582</u>	<u>(72)</u>	<u>14,040</u>	<u>31,430</u>

# Item with value below US\$1,000

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 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 Company is an investment holding company while its principal subsidiaries 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”).

These unaudited condensed consolidated interim financial statements (the “**interim financial statements**”) are presented in United States dollars (“US\$”), unless otherwise stated. These interim financial statements were approved for issuance by the Board of Directors on 30 August 2021.

## 2. Basis of Preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2021 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 the applicable disclosure provisions of the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2020, except for the adoption of the revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations).

These unaudited condensed consolidated interim financial statements have not been audited, but has been reviewed by the Company's audit committee.

## **CHANGES IN ACCOUNTING POLICIES**

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or amendment that is not yet effective for the current accounting period.

### **3. Estimates**

The preparation of unaudited condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

### **4. 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 Period, 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 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, 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:

	<b>Six months ended</b>	
	<b>30 June 2021</b>	30 June 2020
	<i>US\$'000</i>	<i>US\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
<b>Revenue recognised at a point in time</b>		
Hong Kong	<b>112,188</b>	41,226
The PRC	<b>8,816</b>	21,735
	<b><u>121,004</u></b>	<u>62,961</u>
	<b>30 June 2021</b>	31 December
	<i>US\$'000</i>	2020
	<b>(Unaudited)</b>	(Audited)
<b>Non-current assets</b>		
Hong Kong	<b>819</b>	958
The PRC	<b>394</b>	408
	<b><u>1,213</u></b>	<u>1,366</u>



## 5. 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 including the bundled services delivered to the customers and recognised at a point in time. Revenue and other income recognised during the Period are as follows:

	<b>Six months ended</b>	
	<b>30 June 2021</b>	30 June 2020
	<i>US\$'000</i>	<i>US\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
<i>Revenue from contract with customers within the scope of HKFRS 15, types of goods or services</i>		
Sales of ICs	<b>121,004</b>	62,961
<i>Other income</i>		
Bank interest income	<b>1</b>	5
Exchange gain, net	<b>151</b>	—
Government grant	<b>19</b>	31
Others	<b>16</b>	32
	<b>187</b>	68

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sale of ICs 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.

## 6. Finance Costs

	<b>Six months ended</b>	
	<b>30 June 2021</b>	<b>30 June 2020</b>
	<i>US\$'000</i>	<i>US\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Interest on lease liabilities	10	12
Interest on bills payables	529	438
Interest on discounted bills	22	4
Interest on short-term bank loans	216	64
Interest on promissory notes	292	—
	<u>1,069</u>	<u>518</u>

## 7. Profit Before Income Tax

	<b>Six months ended</b>	
	<b>30 June 2021</b>	<b>30 June 2020</b>
	<i>US\$'000</i>	<i>US\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Amortisation of intangible assets	17	36
Cost of inventories recognised as expenses	115,428	58,167
Depreciation of property, plant and equipment	332	262
Employee benefit expenses (including directors' remuneration)		
Salaries and allowances	2,258	1,165
Pension scheme contributions		
— Defined contribution plan	249	89
	<u>2,258</u>	<u>1,165</u>

## 8. Income Tax Expense

	<b>Six months ended</b>	
	<b>30 June 2021</b>	<b>30 June 2020</b>
	<i>US\$'000</i>	<i>US\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Current tax expenses		
— Hong Kong Profits Tax	200	347
— PRC Corporate Income Tax	3	182
	<u>203</u>	<u>529</u>

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

The provision for PRC Corporate Income Tax is calculated at the standard rate of 25% on the estimated assessable income as determined in accordance with the relevant income tax rules and regulations of the PRC.

## 9. Dividends

No interim dividend was declared for the period (2020: Nil).

## 10. Earnings Per Share Attributable to Shareholders of the Company

The calculation of the basic earnings per share amounts is based on the following data:

	<b>Six months ended</b>	
	<b>30 June 2021</b>	30 June 2020
	<i>US\$'000</i>	<i>US\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Profit attributable to shareholders of the Company	<u><b>1,678</b></u>	<u>1,654</u>
Weighted average number of ordinary shares in issue during the period	<u><b>800,000</b></u>	<u>800,000</u>

The calculation of the basic earnings per share is based on the profit attributable to shareholders of the Company for the six months ended 30 June 2021 of US\$1,678,000 (six months ended 30 June 2020: US\$1,654,000) and the weighted average of 800,000,000 ordinary shares (six months ended 30 June 2020: 800,000,000 ordinary shares).

There were no dilutive potential shares outstanding during the six months ended 30 June 2021 (as at 31 December 2020: Nil).

## 11. Life Insurance Policy Deposits

In prior years, the Group entered into life insurance policies (the “**Policy**”) to insure two of the directors of the Company, Mr. Lam Keung and Ms. Cheng Yu Pik. Under the Policy, the beneficiary and policy holder is the Group and the total insured sum was US\$6,737,000 as at 31 December 2020 and 30 June 2021. At inception of the Policy, the Group paid upfront payments of US\$524,000 during the year ended 31 December 2020. The Group can terminate the Policy at any time and can receive cash back based on the net nominal account value of the Policy at the date of withdrawal. Interest is earned at interest rates of at least those guaranteed by the insurer.

The carrying amount of upfront payments will be adjusted through consolidated profit or loss through the expected life of the Policy of 37 years to 44 years. As at 31 December 2020 and 30 June 2021, the Policy was pledged to a bank to secure bills payables (note 15) and bank borrowings (note 16) granted to the Group.

## 12. Financial assets at fair value through other comprehensive income

<b>30 June</b>	31 December
<b>2021</b>	2020
<i>US\$'000</i>	<i>US\$'000</i>

Financial assets at FVTOCI

— Unlisted equity securities in BVI, Cosmic  
Paramount Limited (“**Cosmic**”)

<u><b>6,160</b></u>	<u>6,160</u>
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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.

### 13. Trade and Bills Receivables

	<b>30 June 2021 US\$'000 (Unaudited)</b>	31 December 2020 US\$'000 (Audited)
Trade receivables	44,456	35,600
Less: allowance for expected credit loss on trade receivables, net	<u>(394)</u>	<u>(394)</u>
Trade receivables, net	44,062	35,206
Bills receivables	<u>419</u>	<u>395</u>
	<u><b>44,481</b></u>	<u><b>35,601</b></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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Ageing analysis of the Group's trade receivables, based on the invoice dates, that are not impaired as at each reporting date is as follows:

	<b>30 June 2021 US\$'000 (Unaudited)</b>	31 December 2020 US\$'000 (Audited)
1–30 days	23,272	14,338
31–90 days	17,650	14,527
91–120 days	2,619	3,537
Over 120 days	<u>521</u>	<u>2,804</u>
	<u><b>44,062</b></u>	<u><b>35,206</b></u>

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

	<b>30 June 2021</b>	31 December 2020
	<i>US\$'000</i>	<i>US\$'000</i>
	<b>(Unaudited)</b>	(Audited)
1–30 days	<b>33</b>	154
31–90 days	<b>310</b>	142
91–120 days	<b>31</b>	—
Over 120 days	<b>45</b>	99
	<u><b>419</b></u>	<u>395</u>

#### 14. Pledged Bank Deposits and Cash and Cash Equivalents

At 30 June 2021, the cash and bank balances of the Group denominated in RMB amounted to approximately US\$905,000 (31 December 2020: US\$905,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earned interest at floating rates based on daily bank deposit rates. The bank balances were deposited with creditworthy banks with no recent history of default.

At 30 June 2021, the Group's pledged bank deposits of US\$905,000 (31 December 2020: US\$905,000) pledged to secure the bills payables (note 15).

#### 15. Trade and Bills Payables

	<b>30 June 2021</b>	31 December 2020
	<i>US\$'000</i>	<i>US\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Trade payables	<b>13,331</b>	8,361
Bills payables	<b>15,438</b>	12,702
	<u><b>28,769</b></u>	<u>21,063</u>

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

	<b>30 June 2021 US\$'000 (Unaudited)</b>	31 December 2020 US\$'000 (Audited)
1–30 days	9,942	8,017
31–90 days	3,360	324
91–120 days	700	5
Over 120 days	28	15
	<u>13,330</u>	<u>8,361</u>

At 31 December 2020 and 30 June 2021, all bills payables were secured by an assignment over the Policy (note 11) and pledged bank deposits (note 14).

## 16. Bank Borrowings

	<b>30 June 2021 US\$'000 (Unaudited)</b>	31 December 2020 US\$'000 (Audited)
Current		
Bank borrowings — secured ( <i>note (a and b)</i> )	7,462	6,761
Discounted bills with recourse ( <i>note (c)</i> )	348	342
	<u>7,810</u>	<u>7,103</u>

*Notes:*

- (a) At 30 June 2021, bank borrowings with carrying amount of approximately US\$838,000 (31 December 2020: US\$1,736,000) were secured by an assignment over the Policy (note 11) and pledged bank deposits. Interest was charged in the range from 1.25% to 4.19% per annum as at 31 December 2020 and 30 June 2021, respectively.
- (b) The Group entered into a receivable purchase arrangement with a bank to discount part of the trade receivables of the particular trade debtor with full recourse to a bank with carrying amount of US\$6,624,000 (2020: US\$5,025,000) (note 13), which were secured by an assignment over the Policies (note 11) and pledged bank deposits (note 14). The interest was charged at a rate of 2% per annum over the higher of (i) LIBOR and (ii) the cost of fund of a bank on the proceeds received from the bank until the day the trade debtor paid.

- (c) At 30 June 2021, all borrowings from discounting of bills with recourse were secured by certain bills receivables of the Group with carrying amount of approximately US\$348,000 (31 December 2020: US\$342,000), respectively (note 13). Interest is charged in the range from 2.6% to 4.7% per annum during the periods.

## 17. Share Capital

	Number of shares		Share capital	
	30 June 2021 '000 (Unaudited)	31 December 2020 '000 (Audited)	30 June 2021 US\$'000 (Unaudited)	31 December 2020 US\$'000 (Audited)
Issued and fully paid	<u>800,000</u>	<u>800,000</u>	<u>1,032</u>	<u>1,032</u>

## 18. Related Party Disclosures

The Group had the following transactions with related parties during the Period:

### (a) Balances with related parties

	Notes	30 June 2021 US\$'000 (Unaudited)	31 December 2020 US\$'000 (Audited)
<b>Balances at the end of the period/year</b>			
Advances to related companies	(i), (ii)	<u>13</u>	<u>13</u>

Notes:

- (i) P. Grand (BVI) Ltd. and Kingtech (BVI) Ltd. are the related companies controlled by Mr. Lam Keung and Feng Tao, the spouse of Mr. Qing, respectively.
- (ii) Amounts due were unsecured, non-interest bearing and repayable on demand.



**(b) Compensation of key management personnel**

	<b>Six months ended</b>	
	<b>30 June 2021</b>	<b>30 June 2020</b>
	<b>US\$'000</b>	<b>US\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Short-term employee benefits	<b>375</b>	100
Pension scheme contributions	<b>23</b>	4
	<hr/>	<hr/>
Total compensation paid to key management personnel	<b><u>398</u></b>	<b><u>104</u></b>

**19. Approval of the Interim Condensed Consolidated Financial Statements**

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 30 August 2021.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. OVERVIEW

The Group primarily engage in the sourcing and sale of Integrated circuit (“IC”) products and the provisions of IC application solutions and value-added services to suit the needs of our customers. Our business is focused on fast-growing and emerging market categories, with an emphasis on providing environmentally-friendly and energy-saving solutions.

After years of continuous efforts, the Group has become a well-established fabless semiconductor application solutions provider specializing in the provision, design and development of IC application solutions and sale of ICs for consumer and industrial products. The aim of the Group is to strengthen our market position within the IC application solutions industry by increasing our market share and enhancing the quality of our services. We believe that this will bring sustainable growth to our business and create long-term value in the Group for our Shareholders.

## 2. BUSINESS REVIEW

The Group focuses on the consumer and industrial product sectors, we source and sell IC products. We also provide IC application solutions and value-added services to suit the needs of our customers. While our application solutions can be utilised in a wide range of electronic products, we specialise in the following five major product categories: (i) mobile devices and smart charging; (ii) motor control; (iii) RF power; (iv) LED lighting; and (v) sensors and automation.

Breakdown of our revenue generated by product category for the six months ended 30 June 2021 and the six months ended 30 June 2020 is set forth below:

	<b>For the six months ended</b>			
	<b>30 June 2021</b>		<b>30 June 2020</b>	
	<i>USD'000</i>	<i>%</i>	<i>USD'000</i>	<i>%</i>
Mobile devices and smart charging	<b>96,854</b>	<b>80.0</b>	50,194	79.7
Motor control	<b>12,653</b>	<b>10.5</b>	7,043	11.2
Sensors and automation	<b>8,095</b>	<b>6.7</b>	3,015	4.8
LED lighting	<b>2,208</b>	<b>1.8</b>	1,134	1.8
RF power	<b>1,195</b>	<b>1.0</b>	1,575	2.5
Total	<b><u>121,004</u></b>	<b><u>100.0</u></b>	<b><u>62,961</u></b>	<b><u>100.0</u></b>

Breakdown of our gross profit by product category for the Period and the Preceding Period is set forth below:

	<b>For the six months ended</b>			
	<b>30 June 2021</b>		<b>30 June 2020</b>	
	<i>USD'000</i>	<i>%</i>	<i>USD'000</i>	<i>%</i>
Mobile devices and smart charging	<b>2,704</b>	<b>48.5</b>	3,530	73.6
Motor control	<b>1,646</b>	<b>29.5</b>	709	14.8
Sensors and automation	<b>742</b>	<b>13.3</b>	373	7.8
LED lighting	<b>347</b>	<b>6.2</b>	75	1.6
RF power	<b>137</b>	<b>2.5</b>	107	2.2
Total	<b><u>5,576</u></b>	<b><u>100.0</u></b>	<b><u>4,794</u></b>	<b><u>100.0</u></b>

### **3. FINANCIAL REVIEW**

#### **Revenue**

Revenue for the Period is approximately US\$121.0 million as compared to approximately US\$63.0 million for the Preceding Period, which represents an increase of approximately 92.2%. This is mainly attributed to the growth of business of the mobile devices and smart charging category.

#### **Cost of sales**

Cost of sales for the Period is approximately US\$115.4 million as compared to approximately US\$58.2 million for the Preceding Period, which represents an increase of approximately 98.4%. Cost of sales mainly comprised of (i) material costs; (ii) staff costs; and (iii) transportation and logistics costs. Our material costs which represented our procurement costs of ICs, which formed the largest component of our cost of sales. The increase is in line with the increase in revenue.

#### **Gross profit and gross profit margin**

For the Period, the Group recorded gross profit of approximately US\$5.6 million, as compared to US\$4.8 million for the Preceding Period, an increase of approximately US\$0.8 million is primary attributable to the fact that we generated higher gross profit amount and lower gross profit margin of approximately 3.0% (Preceding Period: 7.0%) for mobile devices and smart charging from the sales of application solution of smart watch and IoT module. The Group recorded an overall gross profit margin of approximately 4.6% and 7.6% for the Period and the Preceding Period, respectively.

#### **Selling and distribution expenses**

For the Period, the Group recorded selling and distribution expenses of US\$991,000 as compared to US\$715,000, for the Preceding Period, an increase of approximately US\$276,000 is mainly due to higher of staff cost of approximately US\$665,000 (Preceding Period: US\$399,000).

## **General and administration expenses**

For the Period, the Group recorded general and administration expenses of US\$1,822,000 as compared to US\$1,430,000, for the Preceding Period, an increase of approximately US\$392,000 is primary attributable to the fact that higher of staff cost of approximately US\$978,000 (Preceding Period: US\$653,000) and depreciation of approximately US\$332,000 (Preceding Period: US\$262,000). General and administration expenses accounted for 1.5% and 2.3% of revenue for the Period and the Preceding Period, respectively.

## **Finance costs**

For the Period, the Group recorded finance costs of approximately US\$1,069,000 as compared to US\$518,000, for the Preceding Period, an increase of approximately US\$551,000 is mainly due to the interest on promissory note of approximately US\$292,000 (Preceding Period: nil). For the Period, finance costs accounted for approximately 0.9% of the total revenue (Preceding Period: 0.8%). The Group's finance costs primarily represented our interest expenses incurred for short-term bank loans and the use of our trade financing facilities.

## **Profit before income tax**

The Group recorded profit before income tax of approximately US\$1,881,000 and US\$2,183,000 for the Period and the Preceding Period respectively.

## **Income tax expenses**

During the Period, the Group's income tax expenses comprised provision for Hong Kong Profits Tax and China Enterprise Income Tax.

The effective tax rate of the Group is approximately 10.8% and 24.2% for the Period and the Preceding Period respectively.

## **Profit for the period**

The Group recorded profit for the period attributable to shareholders of the Company of approximately US\$1,678,000 and US\$1,654,000 for the Period and the Preceding Period respectively.

## **Indebtedness**

### ***Bank borrowings***

As at 30 June 2021, our bank loans of approximately US\$7,810,000 (31 December 2020: US\$7,103,000), were secured by (i) assignments of over our life insurance policies; and (ii) pledged bank deposits.

### ***Lease liabilities***

As at 30 June 2021, the Group had current and non-current lease liabilities of approximately US\$284,000 (31 December 2020: US\$362,000) which represented the outstanding lease liabilities in respect of the leases of our office and warehouses.

## **Foreign currency exposure**

The Group is exposed to foreign currency risk related primarily to sales and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Renminbi (“**RMB**”). The Group does not hold or issue any derivative financial instruments for trading purposes or to hedge against fluctuations in foreign exchange rates.

## **Human resources and remuneration policy**

At 30 June 2021, the total number of employees of the Group (excluding Directors) was approximately 98 (31 December 2020: approximately 96). Most of them were located in the PRC. Remuneration offered by the Group was determined in accordance with the relevant policies in Hong Kong and the PRC and with reference to market trends, as well as individual competence and performance of the staff. Other related benefits included contributions to Mandatory Provident Fund Schemes, social insurance, medical insurance funds and other applicable contributions in accordance with the relevant laws and regulations.

## **Pledge of assets**

At 30 June 2021 and 31 December 2020, life insurance policy deposits were pledged to a bank to secure bills payables and bank borrowings granted to the Group, further details are disclosed in notes 11, 15 and 16 to the interim condensed consolidated financial statements in this report.

## **Commitments**

At 30 June 2021 and 31 December 2020, the Group had no material capital commitment.

## **Contingent liabilities**

As at 31 December 2020 and 30 June 2021, the Group did not have any significant contingent liabilities. Currently, the Group is not a party to any litigation that is likely to have a material adverse effect on our business, results of operations or financial condition.

## **Interim dividend**

The Board resolved not to declare any interim dividend for the six months ended 30 June 2021 (Six months ended 30 June 2020: Nil).

## **Subsequent Events After the Reporting Period**

As of the approval date of these interim condensed consolidated financial statements, there is no significant event after the reporting period that needs to be disclosed.

## Use of Proceeds from Listing

The net proceeds from the Listing of Hong Kong dollar (“HK\$”) 67.8 million (equivalent to approximately US\$8.7 million), after deducting the underwriting fees, commissions and expenses payable by us, have been fully utilised up to 30 June 2021 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 30 June 2021:

Use of proceeds	Approximate percentage of total amount	Actual amount of net proceeds (HK\$'000)	Actual usage up to 30 June 2021 (HK\$'000)	Unutilised amount as at 30 June 2021 (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	6,712	—	—
(iv) Working capital	2.3%	1,559	1,559	—	—
	<u>100%</u>	<u>67,800</u>	<u>67,800</u>	<u>—</u>	



#### 4. FUTURE PROSPECT

Looking forward, the Group will continue to grow our strengths in expertise for semiconductor products with focus on quality, environmentally friendly and energy-saving solutions. We will keep on investing resources in circuitry design, transferring and fitting the circuitry layout onto printed circuit boards (“PCBs”), designing appropriate software where needed, developing prototype evaluation boards, sourcing and suggesting specific brands of Integrated Circuit(s) (“ICs”) required, and then producing reference designs according to customers’ requirements or specifications.

For the business of design and sales of integrated circuit and semi-conductor parts, the management would continuously direct effort to improve the existing products over competitors in terms of performance as well as price. Meanwhile, the management was diversifying different product lines and exploring new sales and distribution channels in order to broaden the revenue source. The Group will increase its efforts in talent exploration, strengthen its innovation and R & D capabilities, and improve the core competitiveness of the Group to further expand market share. More cost control measures would be adopted by the management depending on the future business trends.

The Group will also implement more stringent financial management to support its greater growth. To that end, it will align its overall cost structure, capital investments and other expenditures with its anticipated revenue, development plans and current market conditions.

## **OTHER INFORMATION**

### **CORPORATE GOVERNANCE CODE**

The Group is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimise return for the Shareholders.

The Company was listed on 16 July 2019. Since the Listing Date to the date of this announcement, save as disclosed below, the Company has complied with the Corporate Governance Code:

#### **A.2.1 Roles of chairman and chief executive officer**

Code Provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lam Keung 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-caliber 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.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors.

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions since the Listing Date and up to the date of this report.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to the date of this announcement.

## **REVIEW OF FINANCIAL INFORMATION BY THE AUDIT COMMITTEE**

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2021 have been reviewed by the audit committee, comprising solely the independent non-executive Directors of the Company, and agree to the auditing policy and practices adopted by the Group.

## **SHARE OPTION SCHEME**

Pursuant to the written resolutions of the Shareholders passed on 21 June 2019 (the “**Adoption Date**”), the Company has adopted the share option scheme (the “**Share Option Scheme**”), for the purpose of giving the eligible participants as incentives or rewards to recognize and acknowledge their contributions or potential contributions to the Company and/or any of the subsidiaries. The Share Option Scheme will provide eligible participants an opportunity to have a personal stake in the Company with the view to motivate the eligible participants to optimize their performance efficiency for the benefits of the Company and/or of the subsidiaries; and attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Company and/or of the subsidiaries.

Further details of the Share Option Scheme are set in the paragraph headed “Share Option Scheme” under the section headed “Statutory and General Information” of the Prospectus.

Since the Adoption Date and up to the date of this interim report, no options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

## **SUFFICIENCY OF PUBLIC FLOAT**

At the latest practicable date prior to the issue of this report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Company maintained sufficient public float as required under the Listing Rules throughout the Period.

## **PUBLICATION OF RESULTS ON WEBSITES**

Pursuant to Appendix 16 to the Listing Rules, the results of the Company will be published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.conteltechnology.com](http://www.conteltechnology.com)) in due course.

By Order of the Board  
**Contel Technology Company Limited**  
**Au Ka Man Silkie**  
*Company Secretary*

Hong Kong,  
30 August 2021

*As at the date of this announcement, the Board comprises Mr. Lam Keung, Mr. Qing Haodong and Mr. Mai Lu and 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.*