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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 2023

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 2023 (the “**Period**”), together with comparative figures for the six months ended 30 June 2022 (the “**Preceding Period**”). The audit committee of the Company (the “**Audit Committee**”) has reviewed and discussed with the management of the Company the unaudited condensed consolidated financial statements of the Group for the Period.

FINANCIAL HIGHLIGHTS

	Six months ended	
	30 June 2023	30 June 2022
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Revenue	33,087	72,752
Gross profit	2,818	5,747
(Loss)/profit for the period	(2,713)	1,404

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	<i>Notes</i>	Six months ended	
		30 June 2023	30 June 2022
		<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	5	33,087	72,752
Cost of sales		(30,269)	(67,005)
Gross profit		2,818	5,747
Other income	5	133	70
Selling and distribution expenses		(1,577)	(1,404)
General and administrative expenses		(3,138)	(2,039)
Reversal of allowance for expected credit loss on trade receivables		78	—
Finance costs	6	(1,024)	(773)
(Loss)/profit before income tax	7	(2,710)	1,601
Income tax expense	8	(3)	(197)
(Loss)/profit for the period attributable to the owners of the Company		(2,713)	1,404
		<i>HK cents</i>	<i>HK cents</i>
			(Restated)
(Loss)/earnings per share attributable to the owners of the Company			
Basic and diluted	10	(1.91)	1.35

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended	
	30 June 2023	30 June 2022
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
(Loss)/profit for the period	<u>(2,713)</u>	<u>1,404</u>
Other comprehensive loss		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value loss on investment in equity instruments at fair value through other comprehensive income	—	(57)
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translating of financial statements of foreign operations	<u>(76)</u>	<u>(283)</u>
Other comprehensive loss for the period attributable to the owners of the Company	<u>(76)</u>	<u>(340)</u>
Total comprehensive (loss)/income for the period attributable to the owners of the Company	<u><u>(2,789)</u></u>	<u><u>1,064</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		As at	
		30 June 2023	31 December 2022
	Notes	US\$'000 (Unaudited)	US\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		815	811
Intangible assets		2,779	1,831
Goodwill		252	260
Life insurance policy deposits	11	2,695	2,671
Financial assets at fair value through other comprehensive income	12	6,293	6,293
Deferred tax assets		679	680
		<u>13,513</u>	<u>12,546</u>
Current assets			
Inventories		15,235	20,062
Trade and bills receivables	13	18,435	24,099
Prepayments, deposits and other receivables		7,064	5,603
Amounts due from related parties	18	26	26
Pledged bank deposits	14	380	902
Cash and cash equivalents	14	3,382	2,343
Tax recoverable		10	224
		<u>44,532</u>	<u>53,259</u>
Current liabilities			
Trade and bills payables	15	13,928	18,116
Accruals, contract liabilities and other payables		1,379	1,616
Lease liabilities		280	381
Bank and other borrowings	16	10,769	11,106
		<u>26,356</u>	<u>31,219</u>
Net current assets		<u>18,176</u>	<u>22,040</u>
Total assets less current liabilities		<u>31,689</u>	<u>34,586</u>
Non-current liabilities			
Lease liabilities		—	108
NET ASSETS		<u>31,689</u>	<u>34,478</u>
EQUITY			
Share capital	17	1,417	1,417
Reserves		30,272	33,061
TOTAL EQUITY		<u>31,689</u>	<u>34,478</u>

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Equity attributable to the owners of the Company								
	Share capital	Share premium	Fair value through other comprehensive income reserve	Other reserve	Merger reserve	Statutory surplus reserve	Translation reserve	Retained earnings	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2023 (Audited)	1,417	14,700	133	10,076	(7,021)	731	(403)	14,845	34,478
Loss for the period	—	—	—	—	—	—	—	(2,713)	(2,713)
Exchange differences arising on translating of financial statements of foreign operations	—	—	—	—	—	—	(76)	—	(76)
Total comprehensive loss for the period	—	—	—	—	—	—	(76)	(2,713)	(2,789)
At 30 June 2023 (Unaudited)	1,417	14,700	133	10,076	(7,021)	731	(479)	12,132	31,689
At 1 January 2022 (Audited)	1,032	12,793	121	10,076	(7,021)	724	171	16,436	34,332
Profit for the period	—	—	—	—	—	—	—	1,404	1,404
Fair value loss on investment in equity instrument at fair value through other comprehensive income	—	—	(57)	—	—	—	—	—	(57)
Exchange differences arising on translating of financial statements of foreign operations	—	—	—	—	—	—	(283)	—	(283)
Total comprehensive (loss)/income for the period	—	—	(57)	—	—	—	(283)	1,404	1,064
At 30 June 2022 (Unaudited)	1,032	12,793	64	10,076	(7,021)	724	(112)	17,840	35,396

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Corporate Information

Contel Technology Company Limited (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands on 16 August 2016 under the Companies Law of the Cayman Islands. 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 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 Peoples Republic of China (the “**PRC**”).

The immediate and the ultimate holding company of the Company is P. Grand (BVI) Ltd. (“**P. Grand**”), a company incorporated in the British Virgin Islands (the “**BVI**”). The ultimate controlling parties of the Group are Ms. Feng Tao, Mr. Lam Keung (“**Mr. Lam**”), and Mr. Qing Haodong (“**Mr. Qing**”).

The functional currency of the Company is Hong Kong dollars (“**HK\$**”) and the investment holding subsidiary incorporated in 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 unaudited condensed 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.

The unaudited condensed consolidated financial statements were approved for issuance by the board of directors on 31 August 2023.

2. Basis of Preparation

The unaudited condensed consolidated financial statements for the six months ended 30 June 2023 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 Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income, which have been measured at fair value as at the end of the reporting period.

These unaudited condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2022, except for the adoption of the revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which includes all applicable individual HKFRSs, HKASs and Interpretations).

These unaudited condensed consolidated 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 new and 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.

Application of new and amendments to HKFRSs

In the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2023, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2023:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts and the related Amendments
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International tax reform — Pillar Two Model Rules

The application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

3. Critical Accounting Estimates and Judgements

The preparation of unaudited condensed consolidated 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 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 2022.

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 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, 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 fair value through other comprehensive income and deferred tax assets) is presented based on the location of assets as follows:

	Six months ended	
	30 June 2023	30 June 2022
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15 recognised at a point in time		
Hong Kong	22,571	49,752
The PRC	10,516	23,000
	<u>33,087</u>	<u>72,752</u>
	33,087	72,752
Non-current assets		
	As at	
	30 June	31 December
	2023	2022
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
Hong Kong	2,458	1,622
The PRC	1,388	1,280
	<u>3,846</u>	<u>2,902</u>
	3,846	2,902

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 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 period are as follows:

	Six months ended	
	30 June 2023	30 June 2022
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
<i>Revenue from contract with customers within the scope of HKFRS 15, types of goods or services</i>		
Sales of ICs products and electronic products	<u>33,087</u>	<u>72,752</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.

	Six months ended	
	30 June 2023	30 June 2022
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Other income		
Bank interest income	9	7
Government grant (<i>note (a)</i>)	53	44
Imputed interest income on life insurance policy deposits	52	—
Rent concession (<i>note (b)</i>)	—	6
Others	19	13
	<u>133</u>	<u>70</u>

Notes:

- (a) The government grants represented the subsidies granted by the PRC government for encouragement to local business activities during the six months ended 30 June 2023 and 2022. There are no unfulfilled conditions or other contingencies attached to these subsidies at the end of the reporting period.

- (b) The amount represented rent concessions from the landlord in relation to the COVID-19 pandemic during the six months ended 30 June 2022. The concession did not constitute to the lease modification by applying the practical expedient that met the conditions in paragraph 46B of HKFRS 16.

6. Finance Costs

	Six months ended	
	30 June 2023 <i>US\$'000</i> (Unaudited)	30 June 2022 <i>US\$'000</i> (Unaudited)
Interest on bills payables	396	264
Interest on discounted bills	35	8
Interest on lease liabilities	8	11
Interest on bank borrowings	234	221
Interest on other borrowings	351	269
	<u>1,024</u>	<u>773</u>

7. (Loss)/profit Before Income Tax

(Loss)/profit before income tax is arrived at after charging:

	Six months ended	
	30 June 2023 <i>US\$'000</i> (Unaudited)	30 June 2022 <i>US\$'000</i> (Unaudited)
Amortisation of intangible assets	60	2
Amortisation of life insurance policy deposits	22	—
Cost of inventories recognised as expenses	29,974	66,713
Depreciation of property, plant and equipment	299	291
Employee benefit expenses (including directors' remuneration)		
Salaries and allowances	2,138	2,572
Pension scheme contributions		
— Defined contribution plan	254	335
Expenses relating to the short term leases	<u>6</u>	<u>6</u>

8. Income Tax Expense

	Six months ended	
	30 June 2023	30 June 2022
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Hong Kong Profits Tax		
— Current period	—	187
The PRC Corporate Income Tax		
— Current period	—	10
— Under-provision in prior periods	3	—
	<hr/>	<hr/>
Income tax expense	<u>3</u>	<u>197</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdiction in which members of the Group are domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax under these jurisdictions during the six months ended 30 June 2023 (2022: Nil).

Under the two-tiered profits tax rates regime in Hong Kong Profits Tax, the first HK\$2,000,000 (equivalent to approximately US\$258,000) of profits of the qualifying group entity will be taxed at 8.25% (2022: 8.25%), and profits above HK\$2,000,000 (equivalent to approximately US\$258,000) will be taxed at 16.5% (2022: 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% (2022: 16.5%) during the period.

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2023, as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period. During the six months ended 30 June 2022, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% of the first HK\$2,000,000 (equivalent to approximately US\$258,000) of the estimated assessable profits and at 16.5% on the estimated profits above HK\$2,000,000 (equivalent to approximately US\$258,000), taking into account the tax concession granted by the Government of Hong Kong Special Administrative Region.

The provision for the PRC Corporate Income Tax was based on the statutory rate of 25% (2022: 25%) of the assessable profits of subsidiaries which carried on businesses in the PRC during the period. No provision for the PRC Corporate Income Tax has been made for the six months ended 30 June 2023, as the Group did not have assessable profits subject to the PRC Corporate Income Tax during the period. Pursuant to relevant laws and regulations in the PRC, a PRC subsidiary of the Company is qualified as a small and micro enterprise and its assessable profit was below RMB1,000,000, the PRC subsidiary entitled to the tax effective rate of 2.5% for the six months ended 30 June 2022.

9. Dividends

No interim dividend was paid or proposed for ordinary shareholders of the Company during the period, nor has any dividend been proposed since the end of the reporting period (2022: Nil).

10. (Loss)/earnings Per Share

The calculation of the basic (loss)/earnings per share attributable the owners of the Company is based on the following data:

	Six months ended	
	30 June 2023	30 June 2022
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to the owners of the Company for the purpose of basic (loss)/earnings per share	<u>(2,713)</u>	<u>1,404</u>
	Number of shares	
	Six months ended	
	30 June 2023	30 June 2022
	<i>'000</i>	<i>'000</i>
	(Unaudited)	(Unaudited and restated)
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<u>1,098,122</u>	<u>808,421</u>

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2022 have been adjusted to reflect the Rights Issue (as defined in note 17) completed on 28 December 2022. Accordingly, the basic earnings per share for the six months ended 30 June 2022 are restated.

Diluted (loss)/earnings per share were same as the basic (loss)/earnings per share as there were no dilutive potential shares outstanding during the six months ended 30 June 2023 and 2022.

11. Life Insurance Policy Deposits

Certain life insurance policies (the “Policies”) with a carrying amount approximately US\$2,695,000 (31 December 2022: US\$2,671,000) were entered into by the Group to insure two of the directors of the Company, Mr. Lam and Ms. Cheng Yu Pik. Under the Policies, the beneficiary and policy holder is the Group and the total insured sum was US\$10,537,000 as at 30 June 2023 (31 December 2022: US\$10,537,000). The Group can terminate the Policies at any time and can receive cash back based on the net nominal account value of the Policies at the date of withdrawal. Interest is earned at interest rates of at least those guaranteed by the insurer.

At the inception date, the upfront payments of the Policies were separated into deposits placed and prepayments of life insurance premium. The deposits element was measured at costs adjusted for interests and charges recognised for each period and the prepayments of life insurance premium were stated at cost less subsequent accumulated amortisation over the insurance periods.

As at 30 June 2023, certain Policies with carrying amount of approximately US\$2,426,000 (31 December 2022: US\$2,671,000) were pledged to several banks 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

	As at	
	30 June 2023 US\$'000 (Unaudited)	31 December 2022 US\$'000 (Audited)
Financial assets at fair value through other comprehensive income		
— Unlisted equity securities in the BVI company, Cosmic Paramount Limited (“Cosmic”)	<u>6,293</u>	<u>6,293</u>

In 2020, 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 above unlisted equity securities are designated as financial assets at fair value through other comprehensive income (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.

No dividends were received on this investment during the period (2022: Nil).

13. Trade and Bills Receivables

	As at	
	30 June 2023 US\$'000 (Unaudited)	31 December 2022 US\$'000 (Audited)
Trade receivables, gross	16,371	21,200
Less: allowance for expected credit loss on trade receivables, net	(858)	(939)
Trade receivables, net	15,513	20,261
Bills receivables	2,922	3,838
	18,435	24,099

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 (31 December 2022: 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. Trade receivables are non-interest bearing and the Group does not hold any collateral in relation to these receivables.

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 entered into two receivable purchase arrangements (the “**Arrangements**”) with two commercial banks in Hong Kong to discount certain trade receivables with full recourse to the banks. At 30 June 2023, the Group discounted trade receivables with a carrying amount of approximately US\$3,547,000 (31 December 2022: US\$3,837,000). Under the Arrangements, the Group may be required to reimburse the banks for loss of interest if the trade debtor has late payment up to 180 days. The details of interest are set out in note 16(b) to these condensed consolidated financial statements. The Group was therefore exposed to the risks of credit losses and late payment in respect of the discounted debts. In the opinion of the directors, the discounting transactions did not meet the requirements in HKFRS 9 for derecognition of financial assets as the Group has retained the substantial risks and rewards of ownership of the discounted trade debts, which include default risks relating to such discounted trade receivables, and accordingly, it continued to recognise the full carrying amounts of approximately US\$3,547,000 (31 December 2022: US\$3,837,000) of the discounted trade receivables.

The proceeds of the discounting arrangement were included in bank borrowings as asset-backed financing until the trade debts were collected or the Group settled any losses suffered by the banks. At 30 June 2023, the asset-backed financial liabilities amounted to approximately US\$3,192,000 (31 December 2022: US\$3,240,000) (note 16(b)).

The ageing analysis of the trade receivables, net of expected credit loss allowance, based on the invoice dates, is as follows:

	As at	
	30 June	31 December
	2023	2022
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
1 to 30 days	7,724	12,888
31 to 90 days	6,805	6,734
91 to 120 days	553	391
Over 120 days	431	248
	<hr/>	<hr/>
	15,513	20,261
	<hr/> <hr/>	<hr/> <hr/>

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

	As at	
	30 June	31 December
	2023	2022
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
1 to 30 days	572	398
31 to 90 days	1,892	2,898
91 to 120 days	239	341
Over 120 days	219	201
	<hr/>	<hr/>
	2,922	3,838
	<hr/> <hr/>	<hr/> <hr/>

14. Pledged Bank Deposits and Cash and Cash Equivalents

As at 30 June 2023, the Group's bank deposits of approximately US\$380,000 (31 December 2022: US\$902,000), carrying interest rate range from 0.01% to 4.01% (31 December 2022: 0.01% to 4.01%) per annum was pledged to secure the bills payables (note 15) and bank borrowings (note 16).

Cash and cash equivalents represent cash at banks and on hand. Bank balances carry interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Included in bank balances, there was approximately US\$1,084,000 (31 December 2022: US\$1,119,000) denominated in RMB and deposited with banks in the PRC as at 30 June 2023, RMB is not freely convertible into other currencies, however, under Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations in the PRC, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

15. Trade and Bills Payables

	As at	
	30 June 2023 US\$'000 (Unaudited)	31 December 2022 US\$'000 (Audited)
Trade payables	6,132	7,055
Bills payables	7,796	11,061
	<u>13,928</u>	<u>18,116</u>

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

	As at	
	30 June 2023 US\$'000 (Unaudited)	31 December 2022 US\$'000 (Audited)
1 to 30 days	3,616	4,491
31 to 90 days	2,347	2,523
91 to 120 days	37	36
Over 120 days	132	5
	<u>6,132</u>	<u>7,055</u>

At 30 June 2023 and 31 December 2022, all bills payables were secured by an assignment over certain Policies (note 11) and pledged bank deposits (note 14).

16. Bank and Other Borrowings

	As at	
	30 June 2023 US\$'000 (Unaudited)	31 December 2022 US\$'000 (Audited)
Bank borrowings — secured (<i>note (a) and (b)</i>)	4,972	5,102
Other borrowings — unsecured (<i>note (c)</i>)	2,360	2,360
Other borrowings — secured (<i>note (d)</i>)	822	—
Discounted bills with recourse — secured (<i>note (e)</i>)	2,615	3,644
	<u>10,769</u>	<u>11,106</u>

Notes:

- (a) As at 30 June 2023, several bank borrowings with carrying amounts of approximately US\$42,000 and US\$73,000 (31 December 2022: US\$56,000 and US\$86,000), which were secured by an assignment over certain Policies (note 11) and pledged bank deposits (note 14). Interest rates were variable and charged in the range from 4.13% to 7.72% (31 December 2022: from 1.58% to 5.88%) per annum during the six months ended 30 June 2023. The borrowings were repayable by monthly installments and due in November 2024 and April 2026 (31 December 2022: November 2024 and April 2026), respectively, the amounts were classified as current liabilities due to the borrowings contain a repayable on demand clause.

As at 30 June 2023, the bank borrowings also included three loans, (i) one of the loans amounting to RMB3,000,000 (equivalent to approximately US\$416,000) (31 December 2022: RMB3,000,000 (equivalent to approximately US\$430,000)) which was guaranteed by Chengdu Small and Medium-sized Financing Guarantee Company Limited which under the PRC government with fixed interest rates of 5.20% (31 December 2022: 5.20%) per annum and repayable in August 2023; and (ii) the other two loans amounting to RMB6,000,000 and RMB3,000,000 (equivalent to approximately US\$833,000 and US\$416,000) (31 December 2022: RMB6,000,000 and RMB3,000,000 (equivalent to approximately US\$860,000 and US\$430,000)) which were guaranteed by Shanghai Administration Center of Policy Financing Guarantee Funds for Small and Medium-sized Enterprises and a director of Shanghai IH and his spouse with fixed interest rates of 3.35% and 3.35% (31 December 2022: 3.35% and 3.35%) per annum and repayable in September 2023 and October 2023, respectively.

- (b) As mentioned in note 13, the Group entered into the Arrangements with the banks to discount certain trade receivables with full recourse to the banks. As at 30 June 2023, the corresponding bank borrowings amounted to approximately US\$3,192,000 (31 December 2022: US\$3,240,000), which were secured by an assignment over certain Policies (note 11) and pledged bank deposits (note 14).

As at 30 June 2023 and 31 December 2022, one of the bank facilities provides US\$ financing with interest charged at 2% per annum over Secured Overnight Financing Rate (“**SOFR**”). Another bank facility provides 1) US\$ financing with interest charged at 2.16% per annum over SOFR; and 2) HK\$ financing with interest charged at 2% per annum over 3-month Hong Kong Interbank Offered Rate (“**HIBOR**”).

- (c) As at 30 June 2023, the other borrowings amounted to approximately US\$2,360,000 (31 December 2022: US\$2,360,000) were unsecured with fixed monthly interest charged at 1.5% (31 December 2022: 1.5%) and repayable on demand.
- (d) During the six months ended 30 June 2023, the Group has obtained a loan amounted to approximately HK\$6,375,000 (equivalent to approximately US\$822,000) from a financial institution with interest charged at 2% per annum over 1-month HIBOR and secured by a corporate guarantee provided by a subsidiary of the Company. The borrowing was repayable by quarterly installment and due in December 2024, the amount was classified as current liabilities due to the borrowing contains a repayable on demand clause.
- (e) As at 30 June 2023, all borrowings from discounted bills with recourse with carrying amount of approximately US\$2,615,000 (31 December 2022: US\$3,644,000) with variable interest charged in the range from 2.0% to 3.3% (31 December 2022: from 1.4% to 2.8%) per annum as at 30 June 2023.

17. Share Capital

	Number of ordinary shares	Share capital US\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2023 and 30 June 2023	<u>2,000,000,000</u>	<u>2,579</u>
At 1 January 2022 and 30 June 2022	<u>2,000,000,000</u>	<u>2,579</u>
Issued and fully paid:		
At 1 January 2023 and 30 June 2023 (note)	<u>1,098,122,380</u>	<u>1,417</u>
At 1 January 2022 and 30 June 2022	<u>800,000,000</u>	<u>1,032</u>

Note:

On 14 November 2022, the Company proposed rights issue on the basis of two rights shares for every five existing shares held on 28 November 2022 (the “**Rights Issue**”), at the subscription price of HK\$0.063 per rights share.

On 28 December 2022, the Rights Issue was completed and 298,122,380 ordinary shares were issued. The net proceeds after deducting the related expenses of approximately HK\$1,022,000 (equivalent to approximately US\$132,000), amounted to approximately HK\$17,760,000 (equivalent to approximately US\$2,292,000). Accordingly, the Company’s share capital increased by approximately HK\$2,981,000 (equivalent to approximately US\$385,000) and the remaining balance of the net proceeds of approximately HK\$14,779,000 (equivalent to approximately US\$1,907,000) was credited to the share premium account.

18. Related Party Disclosures

(a) Balances with related parties

		As at	
		30 June 2023	31 December 2022
	Notes	US\$'000 (Unaudited)	US\$'000 (Audited)
Amounts due from related companies	(i), (ii)	<u>26</u>	<u>26</u>

Notes:

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

(b) Compensation of key management personnel

	Six months ended	
	30 June 2023	30 June 2022
	US\$'000 (Unaudited)	US\$'000 (Unaudited)
Short-term employee benefits	191	468
Pension scheme contributions	<u>11</u>	<u>33</u>
Total compensation paid to key management personnel	<u>202</u>	<u>501</u>

MANAGEMENT DISCUSSION AND ANALYSIS

1. OVERVIEW

The Group primarily engage in the sourcing and sale of Integrated circuit (“ICs”) products and the provisions of ICs 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 COVID-19, the global economy slowed down due to the Russian-Ukrainian conflict, fluctuations of raw material prices and exchange rate, as well as the continued pandemic, which constrained the development of the semiconductor industry. Since the second half of 2022, as progressive innovation in the consumer electronics and other markets have entered the decline stage, the weak demand in the consumer market has caused chip suppliers to cut back on orders. The pressure on chip manufacturers to reduce inventory has risen sharply, and the semiconductor industry has entered a downward cycle. However, the demand for chips in the realm of high-power renewable energy, energy storage, industrial automation and artificial intelligence remains high under the systematic destocking cycle, bringing new development opportunities for semiconductor enterprises.

2. BUSINESS REVIEW

As a stable supplier of sourcing and sale of integrated circuit (“ICs”) products and the provisions of ICs application, the Group’s short-term results were challenged by the contraction in industry demand in the first half of 2023. However, the Group has been proactive in addressing market challenges and continues to explore new growth areas to build up strength for future development.

The Group focuses on the consumer and industrial product sectors, we source and sell ICs products. We also provide ICs 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) sensors and automation; (iv) LED lighting; and (v) RF power.

Breakdown of our revenue generated by product category for the six months ended 30 June 2023 and 30 June 2022 is set forth below:

	For the six months ended			
	30 June 2023		30 June 2022	
	<i>USD'000</i>	<i>%</i>	<i>USD'000</i>	<i>%</i>
Mobile devices and smart charging	15,193	46	42,415	58
Motor control	12,831	39	22,075	31
Sensors and automation	3,562	11	6,062	8
LED lighting	721	2	1,448	2
RF power	780	2	752	1
Total	<u>33,087</u>	<u>100</u>	<u>72,752</u>	<u>100</u>

3. FINANCIAL REVIEW

Revenue

Revenue for the Period is approximately US\$33.1 million as compared to approximately US\$72.8 million for the Preceding Period, which represents a decrease of approximately 54.5%. This is mainly attributed to the drop of business of the mobile devices and smart charging category.

Cost of sales

Cost of sales for the Period is approximately US\$30.3 million as compared to approximately US\$67.0 million for the Preceding Period, which represents a decrease of approximately 54.8%. 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 decrease is in line with the decrease in revenue.

Gross profit and gross profit margin

For the Period, the Group recorded gross profit of approximately US\$2.8 million, as compared to US\$5.7 million for the Preceding Period. The Group recorded an overall gross profit margin of approximately 8.5% and 7.9% for the Period and the Preceding Period, respectively.

Selling and distribution expenses

For the Period, the Group recorded selling and distribution expenses of US\$1.6 million as compared to US\$1.4 million, for the Preceding Period, an increase of approximately US\$0.2 million is mainly due to increase in staff costs to approximately US\$1.0 million (Preceding Period: US\$923,000).

General and administration expenses

For the Period, the Group recorded general and administration expenses of US\$3.1 million as compared to US\$2.0 million, for the Preceding Period, an increase of approximately US\$1.1 million is primary attributable to the fact that (i) increase in staff costs to approximately US\$1.4 million (Preceding Period: US\$1.1 million), (ii) an increase in exchange loss to approximately US\$0.4 million (Preceding Period: US\$0.1 million) and (iii) an increase in professional and consultants' fees for business development by approximately US\$0.2 million. General and administration expenses accounted for 9.5% and 2.8% of revenue for the Period and the Preceding Period, respectively.

Finance costs

For the Period, the Group recorded finance costs of approximately US\$1.0 million as compared to US\$0.8 million, for the Preceding Period, an increase of approximately US\$0.2 million is mainly due to rise of bank borrowing rates. For the Period, finance costs accounted for approximately 3.1% of the total revenue (Preceding Period: 1.1%). The Group's finance costs primarily represented our interest expenses incurred for short-term bank loans and the use of our trade financing facilities.

Income tax expenses

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

(Loss)/profit for the period

The Group's profit after tax experienced a change from US\$1.4 million for the Preceding Period to a net loss of US\$2.7 million for the Period.

Indebtedness

Bank borrowings

As at 30 June 2023, our bank loans of approximately US\$3.3 million (31 December 2022: US\$3.4 million), were secured by (i) certain assignments of over our life insurance policies; and (ii) pledged bank deposits.

Lease liabilities

As at 30 June 2023, the Group had lease liabilities of approximately US\$280,000 (31 December 2022: US\$489,000) 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 2023, the total number of employees of the Group (excluding Directors) was approximately 113 (31 December 2022: approximately 107). 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 2023 and 31 December 2022, certain life insurance policies and pledged bank deposits were pledged to several banks to secure bills payables and bank borrowings granted to the Group, further details are disclosed in notes 11, 15 and 16 to the unaudited condensed consolidated financial statements in this announcement.

Commitments

At 30 June 2023 and 31 December 2022, the Group had no material capital commitment.

Contingent liabilities

As at 30 June 2023 and 31 December 2022, 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 2023 (2022: Nil).

Subsequent Events After the Reporting Period

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

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 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 condensed consolidated financial statements of the Group for the six months ended 30 June 2023 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) and the website of the Company (www.conteltechnology.com) in due course.

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

Hong Kong,
31 August 2023

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