TEM Holdings Limited
創新電子控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8346)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the "**Directors**") of TEM Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

* *For identification purposes only*

ANNUAL RESULTS

The board of Directors (the "**Board**") of the Company hereby announces the audited consolidated results of the Group for the year ended 30 June 2018 together with the comparative figures for the year ended 30 June 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	**2018** ***HK\$'000***	2017 *HK\$'000*
Revenue	*3*	**106,165**	105,908
Cost of sales		**(90,103)**	(83,742)
Gross profit		**16,062**	22,166
Other income	*4*	**557**	577
Selling and distribution costs		**(3,154)**	(3,216)
Administrative expenses		**(22,122)**	(21,621)
Other gains and losses	*5*	**(87)**	2,242
(Loss) profit before tax		**(8,744)**	148
Income tax expense	*6*	**(432)**	(2,122)
Loss for the year	*7*	**(9,176)**	(1,974)

	Note	**2018** *HK$'000*	2017 *HK$'000*
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**117**	(47)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**3,442**	(3,187)
Other comprehensive income (expense) for the year		**3,559**	(3,234)
Total comprehensive expense for the year		**(5,617)**	(5,208)
Loss per share — Basic (HK cents)	*9*	**(1.53)**	(0.33)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**16,554**	16,226
Deposits paid for acquisition of property, plant and equipment		**321**	47
Deferred tax assets	*10*	**256**	418
		17,131	16,691
CURRENT ASSETS			
Inventories		**38,424**	26,149
Trade and other receivables	*11*	**37,648**	32,720
Tax recoverable		**1,965**	1,617
Pledged bank deposits		**567**	173
Bank balances and cash		**57,256**	79,493
		135,860	140,152
CURRENT LIABILITIES			
Trade and other payables	*12*	**13,841**	12,056
Tax payable		**73**	93
		13,914	12,149
NET CURRENT ASSETS		**121,946**	128,003
TOTAL ASSETS LESS CURRENT LIABILITIES		**139,077**	144,694
CAPITAL AND RESERVES			
Share capital	*13*	**6,000**	6,000
Reserves		**133,077**	138,694
TOTAL EQUITY		**139,077**	144,694

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

1. GENERAL

The Company is an exempted company incorporated in the Cayman Islands with limited liability and its shares are listed on GEM of the Stock Exchange. Its immediate and ultimate holding company is Jumbo Planet Group Limited, a limited liability company incorporated in British Virgin Islands. Its ultimate controlling party is Mr. Lau Man Tak, who is also the Chairman and a director of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are manufacture and sale of wire/cable harnesses and power supply cords assembled products; and trading of terminals, connectors and others.

The functional currency of the Company is United States dollars ("**US$**"). The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"). The directors of the Company have selected HK$ as the presentation currency because the shares of the Company are listed on the Stock Exchange.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

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.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirement of HKFRS 9 which is relevant to the Group is in relation to the impairment of financial assets. HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs that are subject to the impairment provisions upon the application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, an immaterial amount of impairment loss will be recognised by the Group as at 1 July 2018, mainly attributable to expected credit losses provision on trade and other receivables. Such impairment loss recognised under expected credit loss model would reduce the opening retained profits at 1 July 2018.

Except for the expected credit loss model that may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost, the directors of the Company do not expect any other material impact on the results and financial position of the Group based on an analysis of the Group's existing business model and financial instruments.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

The directors of the Company intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 July 2018.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 June 2018, the Group has non-cancellable operating lease commitments of HK$5,548,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$922,000 as rights and obligation under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the rights to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, net of discount and sales related taxes.

The Group's operating segments are determined based on information reported to the executive directors of the Company who are also directors of all operating subsidiaries, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and performance assessment. The CODM regularly reviews revenue and results analysis by (i) manufacturing of wire/cable harnesses, (ii) manufacturing of power supply cords assembled products and (iii) trading of terminals, connectors and others. No analysis of segment assets or segment liabilities is presented as such information is not regularly provided to the CODM.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment.

For the year ended 30 June 2018

	Manufacturing of wire/cable harnesses *HK$'000*	**Manufacturing of power supply cords assembled products** *HK$'000*	**Trading of terminals, connectors and others** *HK$'000*	**Segment total** *HK$'000*	**Total** *HK$'000*
Revenue					
External sales	**89,979**	**11,573**	**4,613**	**106,165**	**106,165**
Segment results	**12,478**	**2,305**	**1,279**	**16,062**	**16,062**
Other income					**557**
Selling and distribution costs					**(3,154)**
Administrative expenses					**(22,122)**
Other gains and losses					**(87)**
Loss before tax					**(8,744)**

For the year ended 30 June 2017

	Manufacturing of wire/cable harnesses *HK$'000*	Manufacturing of power supply cords assembled products *HK$'000*	Trading of terminals, connectors and others *HK$'000*	Segment total *HK$'000*	Total *HK$'000*
Revenue					
External sales	90,376	10,009	5,523	105,908	105,908
Segment results	18,534	1,818	1,814	22,166	22,166
Other income					577
Selling and distribution costs					(3,216)
Administrative expenses					(21,621)
Other gains and losses					2,242
Profit before tax					148

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the profit earned from each segment without allocation of other income, selling and distribution costs, administrative expenses and other gains and losses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Geographical information

The Group's revenue by the geographical location of the customers, determined based on the location to which the Group bills the customers, is detailed below:

	2018 *HK$'000*	2017 *HK$'000*
The People's Republic of China (the "**PRC**")	**37,016**	35,714
Asia Pacific region (excluding the PRC)	**54,596**	57,237
Western Europe	**12,746**	10,987
Others	**1,807**	1,970
	106,165	105,908

Note: The Group's revenue from Asia Pacific region is mainly derived from customers located in Thailand.

The Group's business activities are conducted predominantly in the PRC and Malaysia. Information about the Group's non-current assets by the geographical location of the assets is detailed below:

	2018 *HK$'000*	2017 *HK$'000*
The PRC	**11,810**	10,805
Malaysia	**2,463**	2,592
Others	**2,602**	2,876
	16,875	16,273

Note: Non-current assets excluded deferred tax assets.

Information about major customers

Revenue from customers of corresponding years contributing over 10% of the Group's revenue are as follows:

	2018 *HK$'000*	2017 *HK$'000*
Customer A	**45,230**	46,148
Customer B	**12,291**	12,525
Customer C	**11,681**	11,102

4. OTHER INCOME

	2018 *HK$'000*	2017 *HK$'000*
Bank interest income	**298**	176
Sales of scrap materials	**28**	99
Others	**231**	302
	557	577

5. OTHER GAINS AND LOSSES

	2018 *HK$'000*	2017 *HK$'000*
Net exchange (loss) gain	**(82)**	2,294
Loss on disposal of property, plant and equipment	**(5)**	(52)
	(87)	2,242

6. INCOME TAX EXPENSE

	2018 *HK$'000*	2017 *HK$'000*
The income tax expense comprises:		
Current tax:		
Malaysia corporate income tax	**–**	1,564
Singapore corporate income tax	**75**	91
Underprovision in prior years	**169**	210
Deferred tax charge *(note 10)*	**188**	257
	432	2,122

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for both years.

The income tax rate applicable in Malaysia is 24% for both years.

The income tax rate applicable in Singapore is 17% for both years.

A subsidiary operating in Singapore is entitled to partial income tax exemption (75% exemption on first Singapore dollars ("**SGD**") 10,000 chargeable income and 50% exemption on next SGD290,000 chargeable income) for both years.

Under the Law of the PRC on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

The EIT Law requires withholding tax to be levied on distribution of profits earned by a PRC entity to an overseas company (which is the beneficial owner of the dividends received) for profits generated after 1 January 2008, at the rate of 10%.

The tax charge for the year can be reconciled to the (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018	2017
	HK$'000	*HK$'000*
(Loss) profit before tax	**(8,744)**	148
Tax at the average income tax rate of 25% (2017: 25%)	**(2,186)**	37
Tax effect of expenses not deductible for tax purpose	**1,144**	951
Tax effect of income not taxable for tax purpose	**(176)**	(124)
Tax effect of tax losses not recognised	**1,786**	1,339
Utilisation of deductible temporary differences previously not recognised	**–**	(37)
Utilisation of tax losses previously not recognised	**(98)**	–
Effect of tax exemptions granted to a Singapore subsidiary	**(144)**	(141)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(45)**	(119)
Underprovision in prior years	**169**	210
Others	**(18)**	6
Income tax expense for the year	**432**	2,122

7. LOSS FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Directors' remuneration:		
— Fees	**580**	580
— Salaries and other allowances	**2,953**	2,796
— Retirement benefit scheme contributions	**96**	128
	3,629	3,504
Other staff costs	**26,471**	24,758
Retirement benefit scheme contributions, excluding those of directors	**2,960**	3,062
Total staff costs (including directors' remuneration)	**33,060**	31,324
Capitalised in inventories	**(20,746)**	(13,554)
	12,314	17,770
Auditor's remuneration	**1,141**	1,069
Cost of inventories recognised as expense	**90,103**	83,742
Depreciation of property, plant and equipment	**3,887**	2,925
Minimum lease payments for operating leases in respect of land and buildings	**3,644**	3,854
(Reversal of write-down) write-down of inventories, net	**(186)**	105

8. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders by the Company during the years ended 30 June 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

9. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Loss:		
Loss for the year attributable to owners of the Company	**(9,176)**	(1,974)
Number of shares:		
Number of ordinary shares for the purpose of basic loss per share	**600,000,000**	600,000,000

No diluted loss per share is presented for the current and prior years as there were no potential ordinary shares in issue.

10. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation *HK$'000*	**Allowance for inventories** *HK$'000*	**Tax losses** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
At 1 July 2016	(87)	499	–	308	720
(Charge) credit to profit or loss	(477)	23	356	(159)	(257)
Exchange alignment	5	(30)	–	(20)	(45)
At 30 June 2017	(559)	492	356	129	418
(Charge) credit to profit or loss	(99)	(54)	1	(36)	(188)
Exchange alignment	(16)	34	–	8	26
At 30 June 2018	(674)	472	357	101	256

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiary amounting to HK$4,700,000 (2017: HK$4,400,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of HK$25,879,000 (2017: HK$19,121,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$1,428,000 (2017: HK$1,422,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$24,451,000 (2017: HK$17,699,000) due to the unpredictability of future profit streams. Included in the unrecognised tax losses are tax losses of HK$362,000 (2017: HK$756,000) which will lapse in 2023, the remaining tax losses may be carried forward indefinitely.

11. TRADE AND OTHER RECEIVABLES

	2018 ***HK$'000***	2017 *HK$'000*
Trade receivables	**32,007**	28,554
Prepayments, deposits and other receivables	**5,641**	4,166
	37,648	32,720

The Group allows credit period ranging from 30 days to 150 days to its customers.

The following is an aged analysis of trade receivables presented based on the invoice date/date of delivery of goods at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**10,024**	10,213
31–60 days	**9,065**	8,351
61–90 days	**5,711**	4,741
91–120 days	**5,288**	4,104
Over 120 days	**1,919**	1,145
	32,007	28,554

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers and credit terms granted to customers are reviewed regularly. The majority of the trade receivables that are neither past due nor impaired have no history of defaulting on repayments.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$3,711,000 (2017: HK$1,393,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as the Group considers such balances could be recovered based on historical experience. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables which are past due but not impaired at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
Overdue:		
1 to 30 days	**2,562**	859
31 to 60 days	**1,009**	211
61 to 90 days	**64**	7
91 to 120 days	**–**	316
Over 120 days	**76**	–
	3,711	1,393

In determining the recoverability of a trade receivable, the Group considers the historical settlement record, subsequent settlement, credit assessment and business relationship with the customers.

Trade and other receivables that are denominated in currencies other than the functional currencies of the relevant group entities are:

	2018	2017
	HK$'000	*HK$'000*
HK$	**114**	291
US$	**15,537**	15,147
Euro ("**EUR**")	**1,697**	3,481

12. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**9,228**	7,601
Other payables and accrued expenses	**4,613**	4,455
	13,841	12,056

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

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**4,332**	3,619
31–60 days	**3,129**	2,387
61–90 days	**1,459**	1,512
Over 90 days	**308**	83
	9,228	7,601

The credit period on purchases of goods is 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Trade and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are:

	2018	2017
	HK$'000	*HK$'000*
HK$	**–**	905
US$	**4,180**	2,509
EUR	**1,918**	1,225

13. SHARE CAPITAL

	Number of shares	Share capital *HK$*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 July 2016, 30 June 2017 and 30 June 2018	**20,000,000,000**	**200,000,000**
Issued and fully paid:		
At 1 July 2016, 30 June 2017 and 30 June 2018	**600,000,000**	**6,000,000**

	HK$'000
Shown in the consolidated statement of financial position	6,000

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the manufacturing and supply of wire/cable harnesses and power supply cords assembled products, with our manufacturing operations in Malaysia and the PRC and has more than 20 years of experience in the wire/cable harness industry. We also sell terminals and connectors. The customers of the Group are generally global brand name home/consumer appliances manufacturers and original equipment manufacturers in the home/consumer appliances and industrial products industries that mainly based in the Asia Pacific region.

During the year ended 30 June 2018, the Group recorded a revenue of approximately HK$106,165,000, a slight increase of approximately 0.2% from the last year. Gross profit for the year ended 30 June 2018 amounted to HK$16,062,000, with gross profit margin of 15.1% which compared to 20.9% for the last year. The decline in gross profit was mainly caused by the continuous shortage of supply and tight delivery of raw material from a major supplier which led to an increase in the cost of direct materials and the cost of manufacturing overheads. The loss for the year ended 30 June 2018 was approximately HK$9,176,000, increased substantially from HK$1,974,000 for the year ended 30 June 2017.

Segment information

The Group manages its business by three operating segments which are (i) manufacturing of wire/cable harnesses, (ii) manufacturing of power supply cords assembled products and (iii) trading of terminals, connectors and others.

The following is an analysis of the Group's revenue by operating segments:

	For the year ended 30 June					
	2018		2017		Increase/(Decrease)	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Manufacturing of wire/cable harnesses	**89,979**	**84.8**	90,376	85.3	(397)	(0.4)
Manufacturing of power supply cords assembled products	**11,573**	**10.9**	10,009	9.5	1,564	15.6
Trading of terminals, connectors and others	**4,613**	**4.3**	5,523	5.2	(910)	(16.5)
	106,165	**100.0**	105,908	100.0	257	0.2

The manufacturing of wire/cable harness experienced a slight slowdown of revenue. The revenue of manufacturing of wire/cable harnesses decreased to approximately HK$89,979,000 for the year ended 30 June 2018 from approximately HK$90,376,000 for the year ended 30 June 2017. The gross profit of this segment was approximately HK$12,478,000 for the year ended 30 June 2018. The revenue of manufacturing of power supply cords assembled products was approximately HK$11,573,000 for the year ended 30 June 2018, representing an increase of 15.6% as compared to approximately HK$10,009,000 for the year ended 30 June 2017. The gross profit of this segment was approximately HK$2,305,000 for the year ended 30 June 2018. The revenue of trading of terminals, connectors and others was approximately HK$4,613,000 for the year ended 30 June 2018, representing a decline of 16.5% as compared to approximately HK$5,523,000 for the year ended 30 June 2017. The gross profit of this segment was approximately HK$1,279,000 for the year ended 30 June 2018.

The overall profitability dropped markedly mainly due to the continuous shortage of supply and tight delivery of raw material from a major supplier which led to an increase in the cost of direct materials and the cost of manufacturing overhead in the manufacturing of wire/cable harness segment. Such challenges are expected to continue in the coming quarters, putting pressure on the overall profit margin. However, we shall continue to strengthen our procurement capabilities and optimize production capacities, so as to enhance our production efficiency and uplift the product quality. Regarding the manufacturing of power supply cords assembled products segment, positive feedback from customers were received after development and installation of various automated production processes and machinery during the year ended 30 June 2018.

On the other hand, the improvement in operation efficiency of our factory in the PRC was offset by the margin squeezed by major customers during the year ended 30 June 2018. Moreover, the increasing cost of manufacturing overheads and installation of environmental friendly machines and equipment for complying with the stringent environmental regulations in the PRC is expected to pose additional high pressure in the operating profit margin in the coming quarters.

Geographical information

The Group's revenue by the geographical location of the customers, determined based on the location to which the Group bills the customers, is detailed below:

	For the year ended 30 June					
	2018		2017		Increase/(Decrease)	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
The PRC	**37,016**	**34.9**	35,714	33.7	1,302	3.6
Asia Pacific region (excluding the PRC)	**54,596**	**51.4**	57,237	54.0	(2,641)	(4.6)
Western Europe	**12,746**	**12.0**	10,987	10.4	1,759	16.0
Others	**1,807**	**1.7**	1,970	1.9	(163)	(8.3)
	106,165	**100.0**	105,908	100.0	257	0.2

The revenue from the PRC recorded HK$37,016,000 for the year ended 30 June 2018 and accounted for 34.9% of the Group's total revenue and represented a slight increase of 3.6% as compared to approximately HK$35,714,000 for the year ended 30 June 2017. The revenue from Asia Pacific region (excluding the PRC) was approximately HK$54,596,000 for the year ended 30 June 2018 and accounted for 51.4% of the Group's total revenue, representing a drop of 4.6% as compared to approximately HK$57,237,000 for the year ended 30 June 2017. The revenue from Western Europe was approximately HK$12,746,000 for the year ended 30 June 2018 and accounted for 12.0% of the Group's revenue, representing an increase of 16.0% as compared to approximately HK$10,987,000 for the year ended 30 June 2017.

As shown from above, the revenue generated from the PRC and the Western Europe increased by approximately 6.6% in aggregate when compared to last year. Such increase demonstrated the contribution from our continual participation in the world's leading trade fair and conference for electronics, both electronica and electronica China, since 2016. We first participated the electronica held in Munich, Germany (which takes place every two years) in November 2016 and electronica China held in Shanghai, the PRC (which takes place annually) in March 2017 and 2018. Both electronica are international trade fairs for the electronics industry and the range of exhibits at electronica covers technologies, products and solutions in the entire electronics industry and their visitors represent nearly all consumer segments and user branches of industry. Through both electronica and regular visits with existing and potential customers, we intend not only to enrich our industry knowledge and connections but also to reach out to more potential customers. We will participate in electronica 2018 in Munich, Germany between November 13 and 16, 2018.

By doing so, we would like to diversify our customer mix and optimize our production capacities to maintain our competitiveness in the market. The overall performance is also forecasted to improve gradually through crystallization of these customers' visits, requests for quotation from the potential customers thereafter and continuous effort to uplift the profit level of existing productions.

OUTLOOK AND PROSPECTS

Based on the current order status and communications with the Group's major customers, we anticipate that the revenue of the Group in the coming year would be better than 2018. However, the global economy is expected to become increasingly challenging in the coming quarters, especially in the manufacturing sectors. The economy and trading relationship amongst the United States, China and the European Union are getting more dynamic with high uncertainty. Our management team shall keep close monitoring on the unstable market demand with implementation of contingent measures, including costs controls, closer cooperation with customers, stricter inventory management, and prudent financial risk management.

Amid uncertainties and poor market sentiment in the overall macro-economic environment, the Group continues to align its strategic direction of providing value-added service and products with higher quality to our customers. The Group's long-term goal is to enhance the overall profitability by leveraging the existing well-organized business platform and capital employed.

FINANCIAL REVIEW

Revenue

The Group's revenue slightly increased from approximately HK$105,908,000 for the year ended 30 June 2017 to approximately HK$106,165,000 for the year ended 30 June 2018.

Cost of sales and gross profit

The Group's cost of sales increased by 7.6% from approximately HK$83,742,000 for the year ended 30 June 2017 to approximately HK$90,103,000 for the year ended 30 June 2018. The gross profit margin decreased from 20.9% for the year ended 30 June 2017 to 15.1% for the year ended 30 June 2018. Such decline was mainly attributable to the continuous shortage of supply and tight delivery of raw material from a major supplier which led to an increase in the cost of direct materials and the cost of manufacturing overheads. As a result of the drop in gross profit margin, the gross profit of the Group fell by 27.5% from approximately HK$22,166,000 for the year ended 30 June 2017 to approximately HK$16,062,000 for the year ended 30 June 2018.

Selling and distribution costs

The Group's selling and distribution costs mainly consisted of transportation, travelling expenses and storage costs, amounted to approximately HK$3,154,000 for the year ended 30 June 2018 which was approximately the same as HK$3,216,000 for the year ended 30 June 2017. Though marketing and promotion activities had been continuously carried out, we strived our best to minimize the expenses incurred.

Administrative expenses

The Group's administrative expenses, mainly comprised of staff costs, rental expenses and professional and compliance fees, increased by 2.3% from approximately HK$21,621,000 for the year ended 30 June 2017 to approximately HK$22,122,000 for the year ended 30 June 2018.

Other gains and losses

The Group recorded approximately HK$87,000 net other losses for the year ended 30 June 2018 and approximately HK$2,242,000 net other gains for the year ended 30 June 2017. The change from net other gains for the year ended 30 June 2017 to net other losses this year was mainly because of the exchange loss on Malaysian Ringgit ("**MYR**") recognized in 2018 while the exchange gain on MYR recognized for the year ended 30 June 2017.

Income tax expense

The Group's income tax expense significantly dropped by 79.6% to approximately HK$432,000 for the year ended 30 June 2018 from approximately HK$2,122,000 for the year ended 30 June 2017. It was because of nil corporate income tax recorded for our Malaysia subsidiary for the year ended 30 June 2018.

Loss of the year

The Group recorded a loss for the year ended 30 June 2018 was approximately HK$9,176,000. For the year ended 30 June 2017, the Group also recorded a loss in the amount of approximately HK$1,974,000.

Dividends

The Board does not recommend the payment of any final dividend for the year ended 30 June 2018.

Liquidity and Financial Resources

As at 30 June 2018, the Group had a financial position with net assets amounted to approximately HK$139,077,000 (2017: approximately HK$144,694,000) and net current assets stood at approximately HK$121,946,000 (2017: approximately HK$128,003,000).

As at 30 June 2018, shareholders' fund amounted to approximately HK$139,077,000 (2017: approximately HK$144,694,000) and current assets amounted to approximately HK$135,860,000 (2017: approximately HK$140,152,000), mainly comprising of bank balances and cash, trade and other receivables, inventories and tax recoverable. Current liabilities amounted to approximately HK$13,914,000 (2017: approximately HK$12,149,000) mainly comprising of trade and other payables and tax payable. The Group's bank balances and cash amounted to approximately HK$57,256,000 (2017: approximately HK$79,493,000). Net asset value per share was HK$0.23 (2017: HK$0.24).

Gearing ratio

The Group's gearing ratio as at 30 June 2018 and 2017, which was calculated by dividing its total borrowings by its total equity as at those dates, were both nil due to the absence of borrowings as at those dates.

Capital Structure

The share capital of the Company only comprises of ordinary shares. There has been no change in the capital structure of the Group since the listing of the shares of the Company on GEM of the Stock Exchange on 18 May 2016 (the "**Listing**").

As at 30 June 2018, the Company's issued share capital was HK$6,000,000 and the number of its issued ordinary shares was 600,000,000 of HK$0.01 each (the "**Share(s)**").

Foreign Exchange Exposure

The revenue of the Group is mainly denominated in US$, while several subsidiaries of the Company have foreign currency sales and purchases transactions denominated in MYR, Euro and Renminbi, which exposes the Group to foreign currency risk. The Group currently does not have a foreign exchange hedging policy to eliminate the currency exposures. Management will from time to time review and adjust the Group's hedging and financial strategies based on exchange rate movement.

Significant Investment Held

As at 30 June 2018 and 2017, the Group did not hold any significant investments.

Contingent Liabilities

As at 30 June 2018 and 2017, the Group did not have any material contingent liabilities.

Capital Commitments

As at 30 June 2018, the Group had approximately HK$464,000 capital commitments mainly related to acquisition of machines (2017: approximately HK$91,000).

Employee and Remuneration Policies

As at 30 June 2018, the Group had a total workforce of 400 (2017: 399) employees. Total staff costs for the year ended 30 June 2018 amounted to approximately HK$33,060,000 (2017: approximately HK$31,324,000). Remuneration packages including staff benefits are maintained at a competitive level and reviewed on a periodical basis with reference to their performance, qualifications, experience, positions and the performance of the Group.

Staff benefits include share option scheme, contributions to statutory mandatory provident fund schemes and social insurance together with housing provident funds to its employees in Hong Kong, Singapore, Malaysia and the PRC. In addition to on-the-job training, the Group adopts policies of continuous professional training programs.

Pledge of the Group's Assets

As at 30 June 2018, the bank deposits of approximately HK$567,000 (2017: approximately HK$173,000) were pledged to a bank to secure bank guarantee to a subsidiary of the Group.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the year, the Group did not have any material acquisition nor disposal of subsidiaries or affiliated companies.

Future Plans for Material Investments and Capital Assets

Save as disclosed in the prospectus dated 29 April 2016 (the "**Prospectus**"), the Group did not have other plans for material investments and capital assets as of 30 June 2018.

Use of Proceeds

The net proceeds from the Listing, after deducting listing related expenses, were approximately HK$56,600,000. These proceeds are intended to be applied as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at 30 June 2018, the unutilised proceeds from the Listing in the amount of approximately HK$43,327,000 has been placed as interest bearing deposits with licensed banks in Hong Kong. The Company intends to continue to apply the remaining net proceeds in accordance with the proposed applications set out below.

An analysis of the utilisation of the net proceeds from the Listing up to 30 June 2018 is set out below:

	Planned use of net proceeds (Adjusted in the same manner as stated in Prospectus) *HK$'000*	**Planned use of net proceeds up to 30 June 2018** *HK$'000*	**Actual use of net proceeds up to 30 June 2018** *HK$'000*	**Unutilised balance as at 30 June 2018** *HK$'000*
Upgrade and increase our production capacity	40,978	40,978	9,583	31,395
Enhance our manufacturing, information technology and human resources management capabilities	4,528	4,528	2,151	2,377
Strengthen our sales and marketing efforts	6,226	6,226	1,539	4,687

As at the date of this announcement, the Directors do not anticipate any material change to the plan as to the use of proceeds.

Comparison of Business Objectives with Actual Progress

The following is a comparison of the Group's business objectives as set out in the Prospectus with actual progress for the year ended 30 June 2018.

Business objective set out in Prospectus	Actual progress up to 30 June 2018
To upgrade and increase our production capacity	
— To continue to carry out factory improvement.	Four units of air cooler have been installed in the Malaysia Factory.
— To purchase five fully-automated machines for our production facility in the PRC Factory.	Five units of fully-automated machines have been installed in the PRC Factory
— To purchase four fully-automated machines for our production facility in the Malaysia Factory.	Review of the required specifications of the fully-automated machines is being carried out.
— To purchase two sets of tooling/equipment at our production facility in the PRC Factory.	Two sets of tooling/equipment have been installed in the PRC Factory.
— To purchase three sets of tooling/equipment at our production facility in the Malaysia Factory.	Three sets of tooling/equipment have been installed in the Malaysia Factory.
— To place orders for two units and four units of fully-automated machines for our production facilities in the Malaysia Factory and the PRC Factory, respectively, in anticipation of an increase in the capacity requirement arises from anticipated additional orders and to replace our semi-automated machines.	Two units and four units of fully-automated machines have been installed in the Malaysia Factory and the PRC Factory respectively.
To enhance our manufacturing, information technology and human resources management capabilities	
— To carry out the improvement of our information technology system at the Malaysia Factory and the PRC Factory.	Computer hardware has been upgraded for the Malaysia Factory and the PRC Factory.

Business objective set out in Prospectus	Actual progress up to 30 June 2018
— To plan for upgrade of our design software and hardware for our production facilities in the Malaysia Factory and the PRC Factory.	Review of the specifications of the design software and hardware system is being carried out.
— To recruit two design engineers, one sales engineer, three operation engineers and four other technical staff.	Recruitment has been carried out according to the human resources planning.
To strengthen our sales and marketing efforts	
— To visit key customers in New Zealand, the PRC, other part of Asia and Europe.	The Company has visited the key customers in New Zealand, the PRC and other parts of Asia and plans to visit customers in Europe in November 2018.
— To participate in a trade show in the PRC.	In March 2018, the Company has participated in the electronica China in Shanghai, the PRC, which is one of Asia's leading trade fair for the electronic components, systems and applications.

The Directors will continuously evaluate the Group's business objectives and will consider to change or modify plans against the changing market condition to ensure the business growth of the Group.

EVENTS AFTER THE REPORTING PERIOD

There is no significant event after the reporting period of the Group.

CORPORATE GOVERNANCE PRACTICE

The Directors and the management of the Company recognize the importance of good corporate governance in management and internal procedures so as to achieve effective accountability.

The Company has applied the principles and code provisions in the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules (the "**CG Code**"). In the opinion of the Board, the Company has complied with the CG Code for the year ended 30 June 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions in securities of the Company. Based on specific enquiry with the Directors, all Directors confirmed that they had fully complied with the required standard of dealings and there was no event of non-compliance during the year ended 30 June 2018.

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors during the year ended 30 June 2018.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 30 June 2018, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company's Shares.

AUDIT COMMITTEE

The Company has established an audit committee of the Company (the "**Audit Committee**") with the written terms of reference in compliance with the CG Code. The Group's consolidated financial statements for the year ended 30 June 2018 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 30 June 2018 comply with the applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

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 thereto for the year ended 30 June 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an 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 Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

By order of the Board
TEM Holdings Limited
Lau Man Tak
Chairman and Executive Director

Hong Kong, 12 September 2018

As at the date of this announcement, the executive Directors are Mr. Lau Man Tak, Mr. Vincent Ho Pang Cheng, Mr. Kan Wai Kee and Ms. Koay Lee Chern; and the independent non-executive Directors are Mr. Lum Chor Wah Richard, Mr. Ma Yiu Ho Peter and Mr. Lee Hon Man Eric.

This announcement will remain on the "Latest Company Announcements" page of the GEM website http://www.hkgem.com for at least 7 days from the date of its publication and on the website of the Company at http://ir.tem-group.com.