



TEM

TEM Holdings Limited
創新電子控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8346

2019/2020
Interim Report

* For identification purpose only

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*This report, 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 report 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 report misleading.*

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lau Man Tak (*Chairman*)

Mr. Vincent Ho Pang Cheng

(*Chief Executive Officer*)

Mr. Kan Wai Kee

Ms. Ng Kai Wai

(Appointed on 16 January 2020)

Non-Executive Director

Ms. Koay Lee Chern

Independent Non-Executive Directors

Mr. Ma Yiu Ho Peter

Mr. Lee Hon Man Eric

Mr. Cheung Wai Kuen

AUDIT COMMITTEE

Mr. Ma Yiu Ho Peter (*Chairman*)

Mr. Lee Hon Man Eric

Mr. Cheung Wai Kuen

NOMINATION COMMITTEE

Mr. Lee Hon Man Eric (*Chairman*)

Mr. Lau Man Tak

Mr. Vincent Ho Pang Cheng

Mr. Ma Yiu Ho Peter

Mr. Cheung Wai Kuen

REMUNERATION COMMITTEE

Mr. Cheung Wai Kuen (*Chairman*)

Mr. Lau Man Tak

Mr. Vincent Ho Pang Cheng

Mr. Ma Yiu Ho Peter

Mr. Lee Hon Man Eric

COMPANY SECRETARY

Ms. Ng Ka Wai

AUTHORISED REPRESENTATIVES

Mr. Lau Man Tak

Mr. Kan Wai Kee

COMPLIANCE OFFICER

Mr. Kan Wai Kee

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited

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Grand Cayman, KY1-1108

Cayman Islands

REGISTERED OFFICE

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75 Fort Street

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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China Hong Kong City

33 Canton Road

Tsim Sha Tsui

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited

Room 2103B, 21/F., 148 Electric Road

North Point

Hong Kong

CORPORATE INFORMATION

AUDITOR

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

PRINCIPAL BANKERS

China Construction Bank (Asia)
Corporation Limited
The Hong Kong and Shanghai Banking
Corporation Limited
Nanyang Commercial Bank Limited

COMPANY'S WEBSITE

<http://www.tem-group.com>

STOCK CODE

8346

INTERIM RESULTS

The board of Directors (the "Board") of the Company hereby announces the unaudited condensed consolidated financial results of the Group for the three months and six months ended 31 December 2019 together with the comparative unaudited figures for the corresponding periods in 2018, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND SIX MONTHS ENDED 31 DECEMBER 2019

	Notes	For the three months ended 31 December		For the six months ended 31 December	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	3	27,948	20,882	52,515	47,427
Cost of sales		(23,840)	(18,129)	(45,112)	(40,054)
Gross profit		4,108	2,753	7,403	7,373
Other income	4	160	199	802	544
Selling and distribution costs		(680)	(573)	(1,363)	(1,326)
Administrative expenses		(5,684)	(5,408)	(11,031)	(11,328)
Other gains and losses	5	202	53	(171)	(13)
Interest expenses on lease liabilities		(5)	-	(10)	-
Loss before taxation		(1,899)	(2,976)	(4,370)	(4,750)
Income tax expense	6	(142)	(56)	(304)	(179)
Loss for the period	7	(2,041)	(3,032)	(4,674)	(4,929)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND SIX MONTHS ENDED 31 DECEMBER 2019

	For the three months ended 31 December		For the six months ended 31 December	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Other comprehensive income (expense)				
<i>Item that will not be reclassified to profit or loss:</i>				
Exchange differences arising on translation to presentation currency	77	20	–	20
<i>Item that may be reclassified subsequently to profit or loss:</i>				
Exchange differences arising on translation of foreign operations	921	86	(31)	(1,727)
Other comprehensive income (expense) for the period	998	106	(31)	(1,707)
Total comprehensive expense for the period	(1,043)	(2,926)	(4,705)	(6,636)
Loss per share				
— Basic (HK cents)	9	(0.51)	(0.78)	(0.82)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	As at 31 December 2019 HK\$'000 (Unaudited)	As at 30 June 2019 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	15,273	15,882
Right-of-use assets	10	260	–
Deposits paid for acquisition of property, plant and equipment		1,229	41
Deferred tax assets		836	828
		17,598	16,751
CURRENT ASSETS			
Inventories		47,348	44,833
Trade receivables, prepayments and deposits	11	35,428	32,822
Tax recoverable		–	1,069
Pledged bank deposits		570	565
Bank balances and cash		34,821	45,212
		118,167	124,501
CURRENT LIABILITIES			
Trade and other payables	12	12,962	15,258
Lease liabilities	13	242	–
Secured bank borrowing		159	–
Tax payable		349	–
		13,712	15,258
NET CURRENT ASSETS		104,455	109,243
TOTAL ASSETS LESS CURRENT LIABILITIES		122,053	125,994
NON-CURRENT LIABILITIES			
Lease liabilities		21	–
Secured bank borrowing		743	–
		764	–
NET ASSETS		121,289	125,994
CAPITAL AND RESERVES			
Share capital	14	6,000	6,000
Reserves		115,289	119,994
TOTAL EQUITY		121,289	125,994

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	PRC		Total HK\$'000
				Statutory reserve HK\$'000 (note)	Retained profits HK\$'000	
At 1 July 2018 (audited)	6,000	66,340	(2,362)	2,742	65,831	138,551
Loss for the period	-	-	-	-	(4,929)	(4,929)
Exchange differences arising on translation to presentation currency	-	-	20	-	-	20
Exchange differences arising on translation of foreign operations	-	-	(1,727)	-	-	(1,727)
Total comprehensive expense for the period	-	-	(1,707)	-	(4,929)	(6,636)
At 31 December 2018 (unaudited)	6,000	66,340	(4,069)	2,742	60,902	131,915
At 1 July 2019 (audited)	6,000	66,340	(4,156)	2,742	55,068	125,994
Loss for the period	-	-	-	-	(4,674)	(4,674)
Exchange differences arising on translation of foreign operations	-	-	(31)	-	-	(31)
Total comprehensive expense for the period	-	-	(31)	-	(4,674)	(4,705)
At 31 December 2019 (unaudited)	6,000	66,340	(4,187)	2,742	50,394	121,289

Note: The People's Republic of China (the "PRC") reserve is non-distributable and the transfer to this reserve is determined by the board of directors of the subsidiaries in the PRC in accordance with the relevant laws and regulations of the PRC. Appropriation to such reserve is made out of 10% of net profit after taxation reported in the statutory financial statements of the PRC subsidiaries annually. No appropriation is required if the balance at the statutory reserve has reached 50% of the registered capital of the relevant PRC subsidiaries. This reserve can be used to offset accumulated losses or to increase capital upon approval from the relevant authorities.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	For the six months ended 31 December	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Net cash used in operating activities	(8,338)	(2,725)
Net cash used in investing activities	(2,538)	(1,475)
Net cash generated from financing activities	902	–
Net decrease in cash and cash equivalents	(9,974)	(4,200)
Effect of foreign exchange rate changes	(417)	75
Cash and cash equivalents at beginning of the period	45,212	57,256
Cash and cash equivalents at the end of the period	34,821	53,131

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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. The Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance (Cap 622 of the laws of Hong Kong). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to this report.

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. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group for the six months ended 31 December 2019 have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated financial statements have been prepared under historical cost convention.

The preparation of the unaudited condensed consolidated financial statements in conformity with the HKFRS requires the use of certain critical accounting estimates. It also requires the management to exercise their judgements in the process of applying the Group's accounting policies.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements of the Group for the year ended 30 June 2019, except the new revised HKFRSs as described below.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current period:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as disclosed below, the application of the new and amendments to HKFRSs in the current period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current period. HKFRS 16 superseded HKAS 17 “Leases” (“**HKAS 17**”), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 "Leases" (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative standalone prices.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which they are located or restoring the underlying assets to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful lives. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item in the condensed consolidated statement of financial position.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases” (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Leasehold land and buildings

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted for under HKFRS 9 “Financial Instruments” (“**HKFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivables;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases” (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease liabilities (continued)

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases” (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) — Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 July 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases” (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 July 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group has applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on a lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- ii. excluded initial direct costs for measurement of the right-of-use assets at the date of initial application; and
- iii. the use of hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Company’s leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 July 2019, the Group recognised additional right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. The Group has recognised lease liabilities of approximately HK\$376,000 and right-of-use assets of approximately HK\$376,000 at 1 July 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied was 6.0% per annum.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 "Leases" (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

	At 1 July 2019 HK\$'000
Operating lease commitments at 30 June 2019	3,377
Lease liabilities discounted at relevant incremental borrowing rates	3,275
Less: short-term leases recognised on a straight-line basis as expenses	(2,899)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 at 1 July 2019	376
Analysed as	
Current	233
Non-current	143
	376

The carrying amount of right-of-use assets at 1 July 2019 comprises the following:

	Right-of-use assets HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	376
	376
Analysed as:	
Current	–
Non-current	376
	376
By class of underlying assets:	
Leasehold land and buildings	376

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 July 2019. Line items that were not affected by the changes have not been included.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases” (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

	Carrying amounts previously reported at 30 June 2019 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 at 1 July 2019 HK\$'000
Non-current Assets			
Right-of-use assets	–	376	376
Total effect on assets	–	376	376
Current Liabilities			
Lease liabilities	–	233	233
Non-current liabilities			
Lease liabilities	–	143	143
Total effect on equity and liabilities	–	376	376

Note: For the purpose of reporting cash flows from operating activities under the indirect method for the six months ended 31 December 2019, movements in working capital have been computed based on the opening condensed consolidated statement of financial position as at 1 July 2019 as disclosed above.

The unaudited condensed consolidated financial statements have not been audited by the Company’s auditor, but have been reviewed by the audit committee of the Company (the “Audit Committee”).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION

Segment revenue

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

	For the three months ended 31 December		For the six months ended 31 December	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Manufacture and sale of wire/cable harnesses	25,177	17,816	47,627	39,767
Manufacture and sale of power supply cords assembled products	2,089	2,066	4,183	5,650
Trading of terminals, connectors and others	682	1,000	705	2,010
Revenue from contracts with customers and segments revenue	27,948	20,882	52,515	47,427

All the revenue from contracts with customers are recognised at point in time.

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 three months ended 31 December		For the six months ended 31 December	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
PRC	11,557	5,707	19,278	13,271
Asia Pacific region (excluding the PRC)	11,347	11,674	23,866	26,997
Western Europe	3,527	2,370	6,393	4,672
North and South America	1,517	1,131	2,978	2,487
	27,948	20,882	52,515	47,427

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION (continued)

Information about major customers

Revenue from customers for the three months and six months ended 31 December 2019 and for the corresponding periods in 2018 contributing over 10% of the Group's revenue are as follows:

	For the three months ended 31 December		For the six months ended 31 December	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Customer A	9,799	10,227	19,820	23,337
Customer B	*	1,954	*	4,836
Customer C	4,776	*	8,891	*
Customer D	3,601	*	6,826	*

* The corresponding revenue did not contribute over 10% of the Group's revenue.

4. OTHER INCOME

	For the three months ended 31 December		For the six months ended 31 December	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Bank interest income	136	169	245	383
Government grant (note)	11	–	531	115
Others	13	30	26	46
	160	199	802	544

Note: The government grant represents a subsidy received by a subsidiary of the Company. In the opinion of the management of the Group, there was no unfulfilled condition or contingency relating to the grant.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. OTHER GAINS AND LOSSES

	For the three months ended 31 December		For the six months ended 31 December	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Net exchange gain (loss)	202	53	(183)	(213)
Gain on disposal of property, plant and equipment	–	–	12	200
	202	53	(171)	(13)

6. INCOME TAX EXPENSE

	For the three months ended 31 December		For the six months ended 31 December	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Current tax:				
Malaysia corporate income tax	182	116	344	233
Overprovision in prior years	(40)	(29)	(40)	(29)
Deferred tax credit	–	(31)	–	(25)
	142	56	304	179

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX EXPENSE (continued)

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax has been made as the group entities have no assessable profits for both periods.

Under the Law of the PRC on enterprise income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%. Pursuant to the relevant law and regulation in the PRC, the PRC subsidiary is granted tax incentives as a High and New Technology Enterprise (高新技術企業) and is entitled to a concessionary tax rate of 15% for 3 years from 2018 to 2020.

No provision for PRC Enterprise Income Tax ("EIT") has been made as the group entity has no assessable profits for the six months ended 31 December 2019.

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 income tax rate applicable in Malaysia is 24% for both periods under review.

The income tax rate applicable in Singapore is 17% for both periods. No provision for Singapore corporate income tax has been made as the group entity has no assessable profits for both periods.

7. LOSS FOR THE PERIOD

	For the three months ended 31 December		For the six months ended 31 December	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Loss for the period has been arrived at after charging:				
Staff Costs	7,863	7,787	15,912	14,622
Cost of inventories recognized as expense	15,742	18,129	28,872	40,054
Depreciation of property, plant and equipment	1,012	992	2,068	2,049
Depreciation of right of use assets	60	-	119	-
Minimum lease payments for operating leases in respect of land and buildings	845	880	1,691	1,773
Provision/(Reversal) of inventories write down, net	527	(238)	681	(191)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 31 December 2019 (2018: nil).

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:

	For the three months ended 31 December		For the six months ended 31 December	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Loss:				
Loss for the period attributable to owners of the Company	(2,041)	(3,032)	(4,674)	(4,929)
Number of shares:				
Number of ordinary shares for the purpose of basic loss per share	600,000,000	600,000,000	600,000,000	600,000,000

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

10. PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS

During the six months ended 31 December 2019, additions in property, plant and equipment amounted to HK\$1,615,000 (2018: HK\$2,308,000), disposal of HK\$43,000 (2018: HK\$713,000) and depreciation of HK\$2,068,000 (2018: HK\$2,049,000) were made by the Group respectively.

On the date of application of HKFRS 16, the Group recognised right-of-use assets of approximately HK\$376,000 included in property, plant and equipment and lease liabilities of approximately HK\$376,000.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS

	As at 31 December 2019 HK\$'000 (Unaudited)	As at 30 June 2019 HK\$'000 (Audited)
Trade receivables	31,913	28,869
Less: Allowance for credit loss	(493)	(493)
	31,420	28,376
Prepayments and deposits	4,008	4,446
	35,428	32,822

As at 31 December 2019 and 1 July 2019, trade receivables from contracts with customers amounted to HK\$31,420,000 and HK\$28,376,000 respectively.

Included in trade receivables are amounts due from related parties of HK\$256,000 (2018: HK\$490,000), which are unsecured, interest-free and repayable with credit period of 30 days.

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

The following is an aged analysis of trade receivables net of allowance for credit loss presented based on the invoice date at the end of the reporting period:

	As at 31 December 2019 HK\$'000 (Unaudited)	As at 30 June 2019 HK\$'000 (Audited)
0–30 days	17,740	9,174
31–60 days	6,824	7,249
61–90 days	3,825	5,985
91–120 days	2,987	5,667
Over 120 days	44	301
	31,420	28,376

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. TRADE AND OTHER PAYABLES

	As at 31 December 2019 HK\$'000 (Unaudited)	As at 30 June 2019 HK\$'000 (Audited)
Trade payables	8,126	9,678
Other tax payables and accruals	4,836	5,580
	12,962	15,258

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

	As at 31 December 2019 HK\$'000 (Unaudited)	As at 30 June 2019 HK\$'000 (Audited)
0–30 days	5,661	6,428
31–60 days	1,615	1,907
61–90 days	655	1,198
Over 90 days	195	145
	8,126	9,678

13. LEASE LIABILITIES

During the current period, interest expense of HK\$10,000 (2018: nil) has been charged to profit or loss.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE CAPITAL

	As at 31 December 2019 HK\$'000 (Unaudited)	As at 30 June 2019 HK\$'000 (Audited)
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	200,000	200,000
Issued and fully paid:		
600,000,000 ordinary shares of HK\$0.01 each	6,000	6,000

15. RELATED PARTY DISCLOSURES

(a) Related party transactions

Apart from the outstanding balances with related parties as disclosed in note 11, during the period, the Group entered into the following transactions with its related parties:

		For the six months ended 31 December	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Companies which Mr. Lak Man Tak is a shareholder with controlling interest:			
REF Financial Press Limited	Printing service Fee	33	29
Brascabos International Group Limited and its subsidiaries	Sales of power cords, cable/wire and harnesses	1,600	1,436

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. RELATED PARTY DISCLOSURES (continued)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period is as follows:

	For the six months ended 31 December	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Short term benefits	2,520	2,580
Post-employment benefits	119	120
Total	2,639	2,700

The remuneration of directors and key management personnel are determined having regard to the performance of the individuals.

16. EVENTS AFTER REPORTING PERIOD

The Group had no significant events after the end of the reporting period of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the manufacture and sale 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.

The Group's revenue increased from approximately HK\$47,427,000 for the six months ended 31 December 2018 to approximately HK\$52,515,000 for the six months ended 31 December 2019, representing an increase of approximately 10.7%. The gross profit of the Group rose by 0.4% from approximately HK\$7,373,000 for the six months ended 31 December 2018 to HK\$7,403,000 for the six months ended 31 December 2019. The gross profit margin dropped from 15.5% to 14.1% for the corresponding period and such drop was due to several reasons including i) the drop of revenue in the manufacture and sale of power supply cords assembled products as a result of price competition and the drop of revenue in trading of terminals, connectors and others; ii) higher depreciation charge as a result of new machineries and equipment acquired during the period under review; and iii) provision of write-down of inventories. The loss for the six months ended 31 December 2019 was approximately HK\$4,674,000, decreased from a loss of HK\$4,929,000 for the six months ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Segment Information

The Group manages its business by three operating segments which are (i) manufacture and sale of wire/cable harnesses, (ii) manufacture and sale 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 six months ended 31 December					
	2019		2018		Increase/(Decrease)	
	HK\$'000 (Unaudited)	%	HK\$'000 (Unaudited)	%	HK\$'000	%
Manufacture and sale of wire/cable harnesses	47,627	90.7	39,767	83.8	7,860	19.8
Manufacture and sale of power supply cords assembled products	4,183	8.0	5,650	11.9	(1,467)	(26.0)
Trading of terminals, connectors and others	705	1.3	2,010	4.3	(1,305)	(64.9)
	52,515	100.0	47,427	100.0	5,088	10.7

The revenue of manufacture and sale of wire/cable harnesses increased to approximately HK\$47,627,000 for the six months ended 31 December 2019, representing an increase of 19.8% from approximately HK\$39,767,000 for the six months ended 31 December 2018. The revenue of manufacture and sale of power supply cords assembled products was approximately HK\$4,183,000 for the six months ended 31 December 2019, representing a decrease of 26.0% as compared to approximately HK\$5,650,000 for the six months ended 31 December 2018. The revenue of trading of terminals, connectors and others was approximately HK\$705,000 for the six months ended 31 December 2019, representing a decline of 64.9% as compared to approximately HK\$2,010,000 for the six months ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

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 six months ended 31 December					
	2019		2018		Increase/(Decrease)	
	HK\$'000 (Unaudited)	%	HK\$'000 (Unaudited)	%	HK\$'000	%
The PRC	19,278	36.7	13,271	28.0	6,007	45.3
Asia Pacific region (excluding the PRC)	23,866	45.4	26,997	56.9	(3,131)	(11.6)
Western Europe	6,393	12.2	4,672	9.9	1,721	36.8
North & South America	2,978	5.7	2,487	5.2	491	19.7
	52,515	100.0	47,427	100.0	5,088	10.7

The revenue from the PRC recorded HK\$19,278,000 for the six months ended 31 December 2019 and accounted for 36.7% of the Group's total revenue and represented an increase of 45.3% as compared to approximately HK\$13,271,000 for the six months ended 31 December 2018. The revenue from Asia Pacific region (excluding the PRC) was approximately HK\$23,866,000 for the six months ended 31 December 2019 and accounted for 45.4% of the Group's total revenue, representing a drop of 11.6% as compared to approximately HK\$26,997,000 for the six months ended 31 December 2018. The revenue from Western Europe was approximately HK\$6,393,000 for the six months ended 31 December 2019 and accounted for 12.2% of the Group's revenue, representing an increase of 36.8% as compared to approximately HK\$4,672,000 for the six months ended 31 December 2018. The revenue from North & South America was approximately HK\$2,978,000 for the six months ended 31 December 2019 and accounted for 5.7% of the Group's revenue, representing an increase of 19.7% as compared to approximately HK\$2,487,000 for the six months ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

As revealed from the above, there were, in fact, growth in the revenue generated from the manufacture and sale of wire/cable harnesses during the period under review as we had successfully obtained the orders from one of the leading European companies in the sector of large free-standings and built-in domestic appliances. These encouraging business growth, however, were almost completely offset by the general decrease in orders from several customers based in Asia Pacific and the PRC due to fierce price competition which has been further accelerated by the trade disputes between China and the United States. Besides, during the period under review, the Group has continuously not actively promoted the trading of terminals, connectors and others due to its irregular and passive nature of demand. We would rather deploy resources in other operating/market segments when opportunity arise. This explain why the revenue from the trading business segment dropped since July 2019. Moreover, the Group has started to manufacture and sell cable/wire and harness to South America from the second half of 2018. Since then, the revenue from the America had been steadily increased and it recorded a rise of approximately 20% in revenue generated from North & South America during the period under review as compared to the corresponding period in 2018. Nevertheless, we will continue to expand the customer base and explore business opportunity with current and potential customers in Europe and North and South America.

The tension arising from the trade dispute between China and the United States seems to have lessened in December 2019. Despite such relaxation, the Group will remain cautious over the market outlook amid the uncertain global economic environment and political instability. Nonetheless, the outlook for the coming months is quite uncertain especially with the recent Novel Coronavirus which will definitely have impact on the manufacturing sector in general and our factory will be affected by the preventive measures imposed by the PRC government. The Group will utilise its best endeavours to mitigate the impact. We are closely monitoring the situation and will take reference from World Health Organization's measures as the situation evolves. The well-being of our employee is our utmost concern. We had urged all of our employee to adopt good personal hygiene and exercise caution if travelling (domestic or overseas).

In the short term, the Group will continue to take appropriate measures to maximise the efficiency and effectiveness in the production process and to minimise the cost of production. We will also continue to promote our existing products, explore further markets, solidify relationship with existing customers and widen customer base.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue increased by 10.7% from approximately HK\$47,427,000 for the six months ended 31 December 2018 to approximately HK\$52,515,000 for the six months ended 31 December 2019.

Cost of sales and gross profit

The Group's cost of sales increased by 12.6% from approximately HK\$40,054,000 for the six months ended 31 December 2018 to approximately HK\$45,112,000 for the six months ended 31 December 2019. The gross profit margin decreased from 15.5% for the six months ended 31 December 2018 to 14.1% for the six months ended 31 December 2019. Such decrease was due to several reasons including i) the drop of revenue in the manufacture and sale of power supply cords assembled products as a result of price competition and the drop of revenue in trading of terminals, connectors and others; ii) higher depreciation charge as a result of new machineries and equipment acquired during the period under review; and iii) provision of write-down of inventories. As a result, the gross profit of the Group increased from approximately HK\$7,373,000 for the six months ended 31 December 2018 to approximately HK\$7,403,000 for the six months ended 31 December 2019.

Other income

The Group's other income increased by 47.4% from approximately HK\$544,000 for the six months ended 31 December 2018 to approximately HK\$802,000 for the six months ended 31 December 2019. Such increase was mainly due to a one-off government grant of approximately HK\$501,000 for our factory in the PRC that had certified as one of 高新技術企業 (High New Technology Enterprise) in November 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\$1,326,000 for the six months ended 31 December 2018, recorded a modest increase to approximately HK\$1,363,000 for the six months ended 31 December 2019.

Administrative expenses

The Group's administrative expenses, consisting primarily of staff costs, rental expenses, general office expenses, depreciation, licence fees, professional fees and travelling expenses slightly decreased by 2.6% from approximately HK\$11,328,000 for the six months ended 31 December 2018 to approximately HK\$11,031,000 for the six months ended 31 December 2019. Such decrease was mainly due to the continuous stringent control measures imposed by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Other gains and losses

The Group's other gains and losses mainly comprised of net exchange gain/loss and gain on disposal of property, plant and equipment, amounted to net other losses of approximately HK\$171,000 for the six months ended 31 December 2019 as compared to net other losses of approximately HK\$13,000 for the six months ended 31 December 2018. For the six months ended 31 December 2019, the Group recognized net exchange losses of approximately HK\$183,000 as a result of fluctuation of Renminbi against HK Dollar.

Income tax expense

The Group's income tax expense increased from approximately HK\$179,000 for the six months ended 31 December 2018 to approximately HK\$304,000 for the six months ended 31 December 2019. Such increase was mainly due to the increase in provision of Malaysia Corporate Income Tax.

Loss for the period

As a result of the above, the Group recorded a loss of approximately HK\$4,674,000 for the six months ended 31 December 2019 while the loss for the six months ended 31 December 2018 was approximately HK\$4,929,000.

Interim Dividend

The Board does not recommend the payment of any dividend for the six months ended 31 December 2019 (2018: nil).

Liquidity and Financial Resources

As at 31 December 2019, the Group had a financial position with net assets amounted to approximately HK\$121,289,000 (30 June 2019: approximately HK\$125,994,000) and net current assets stood at approximately HK\$104,455,000 (30 June 2019: approximately HK\$109,243,000).

As at 31 December 2019, shareholders' fund amounted to approximately HK\$121,289,000 (30 June 2019: approximately HK\$125,994,000) and current assets amounted to approximately HK\$118,167,000 (30 June 2019: approximately HK\$124,501,000), mainly comprising of bank balances and cash, trade and other receivables, inventories and tax recoverable. Current liabilities amounted to approximately HK\$13,712,000 (30 June 2019: approximately HK\$15,258,000) mainly comprising of trade and other payables, lease liabilities, secured bank borrowing and tax payable. The Group's bank balances and cash amounted to approximately HK\$34,821,000 (30 June 2019: approximately HK\$45,212,000). Net asset value per share was approximately HK\$0.20 (30 June 2019: approximately HK\$0.21).

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing Ratio

The Group's gearing ratio as at 31 December 2019 was 0.7% (30 June 2019: nil), which is calculated based on the total interest-bearing loans divided by the equity.

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 during the period.

As at 31 December 2019, 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)").

Significant Investment Held

As of 31 December 2019 and 2018, the Group had no any significant investments.

Contingent Liabilities

As at 31 December 2019 and 2018, the Group did not have any material contingent liabilities.

Capital Commitments

As at 31 December 2019, the Group had approximately HK\$3,727,000 capital commitments mainly related to acquisition of machines (30 June 2019: approximately HK\$637,000).

Employee and Remuneration Policies

As at 31 December 2019, the Group had a total workforce of 442 employees (31 December 2018: 431). Total staff costs for the six months ended 31 December 2019 amounted to approximately HK\$15,912,000 (six months ended 31 December 2018: approximately HK\$14,622,000). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 31 December 2019, the bank deposits of approximately HK\$570,000 (30 June 2019: approximately HK\$565,000) 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 six months ended 31 December 2019, the Group did not have any material acquisition nor disposal of subsidiaries or affiliated companies.

Future Plans for Material Investments and Capital Assets

As at 31 December 2019, the Group did not have other plans for material investments and capital assets.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group believes that the risk management practices are important and use its best effort to ensure it is sufficient to mitigate the risks present in the operations and financial position as efficiently and effectively as possible.

Reliance on a Number of Major Customers

The Group derives a substantial portion of the revenues from a number of major customers. The concentration of the sales among a number of major customers exposes us to a variety of risks that could have a material adverse impact on the revenues and profitability, including the reduced demand from a single major customer for the products or loss of a single major customer's business could result in a significant decrease in the revenues.

Fluctuations in the Prices of the Major Raw Materials

Some of the raw materials are subject to price volatility as a result of changes in levels of global demand, supply disruptions and other factors. In particular, connectors and terminals, which constitute a large portion of the raw materials requirements and are made of metal and plastic that are considered as commodities. If there is an increase in the prices, the Group is not able to shift such corresponding price increase to the customers in a timely manner, and this may have a material and adverse effect on the business, financial conditions and results of operations.

Foreign Exchange Risk Management

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. Management will from time to time review and adjust the Group's hedging and financial strategies based on exchange rate movement.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The net proceeds from the listing of shares of the Company on GEM of Stock Exchange on 18 May 2016 (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 dated 29 April 2016 (the "Prospectus"). As at 31 December 2019, the unused proceeds from the Listing in the amount of approximately HK\$31,403,000 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 utilization of the net proceeds from the Listing up to 31 December 2019 is set out below:

	Planned use of net proceeds (Adjusted in the same manner as stated in Prospectus) HK\$'000	Actual use of net proceeds up to 31 December 2019 HK\$'000	Unutilized balance as at 31 December 2019 HK\$'000
Upgrade and increase our production capacity	40,978	14,597	26,381
Enhance our manufacturing, information technology and human resources management capabilities	4,528	3,114	1,414
Strengthen our sales and marketing efforts	6,226	2,618	3,608

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, the Directors and chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

Long positions in the Shares

Ordinary shares of HK\$0.01 each of the Company

Name of Director	Capacity/ Nature of Interest	Number of ordinary shares held (Note 1)	Approximate shareholding percentage in the issued share capital of the Company (%)
Mr. Lau Man Tak ("Mr. Lau")	Interest in a controlled corporation (Note 2)	450,000,000 Shares (L)	75

Notes:

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) 450,000,000 Shares were held by Jumbo Planet Group Limited ("**Jumbo Planet**"). Jumbo Planet is a direct wholly-owned subsidiary of New Universe Industries Limited ("**New Universe**"). New Universe is a direct wholly-owned subsidiary of Perfect Asset Investments Limited ("**Perfect Asset**"), which in turn is wholly-owned by Mr. Lau. By virtue of the SFO, Mr. Lau is deemed, or taken to be, interested in the Shares held by Jumbo Planet in the Company. Mr. Lau is a director of Jumbo Planet, New Universe and Perfect Asset.

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company or any their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2019, so far as is known to the Directors the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the Shares Ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Nature of Interest	Number of ordinary shares held (Note 1)	Approximate shareholding percentage in the issued share capital of the Company (%)
Jumbo Planet	Beneficial owner (Note 2)	450,000,000 Shares (L)	75
New Universe	Interest in a controlled corporation (Note 2)	450,000,000 Shares (L)	75
Perfect Asset	Interest in a controlled corporation (Note 2)	450,000,000 Shares (L)	75
Ms. Lim Youngsook ("Ms. Lim")	Interest of a spouse (Note 3)	450,000,000 Shares (L)	75

Notes:

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) 450,000,000 Shares were held by Jumbo Planet. Jumbo Planet is a direct wholly-owned subsidiary of New Universe. New Universe is a direct wholly-owned subsidiary of Perfect Asset, which in turn is wholly-owned by Mr. Lau. By virtue of the SFO, each of New Universe and Perfect Asset and Mr. Lau is deemed, or taken to be, interested in the Shares held by Jumbo Planet in the Company.

DISCLOSURE OF INTERESTS

- (3) Ms. Lim is the spouse of Mr. Lau. By virtue of the SFO, Ms. Lim is deemed to be interested in the same number of shares in which Mr. Lau is deemed to be interested.

Saved as disclosed above, as at 31 December 2019, the Directors were not aware of any persons who had or deemed or taken to have any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company conditionally adopted the share option scheme on 20 April 2016 (the “Share Option Scheme”) which became unconditional upon Listing for a period of 10 years from 18 May 2016.

The Share Option Scheme is valid and effective for a period of 10 years from 18 May 2016 and its purpose is to reward eligible participants who have contributed or will contribute to the Group and to encourage eligible participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its shareholders as a whole, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group.

Eligible participants of the Share Option Scheme include (collectively “Eligible participants”):

- (i) any Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of the Group; and
- (ii) any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group, whom the Board considers, in its sole discretion, to have contributed or will contribute to the Group.

The total number of Shares of the Company available for issue under the scheme is 60,000,000 Shares, representing 10% of the total number of Shares in issue as at the date of this report. The total number of Shares of the Company to be issued upon exercise of the share options granted to each eligible participant under the Scheme in any 12-month period must not exceed 1% of the total Shares of the Company then in issue, unless approved by shareholders of the Company in general meeting in the manner prescribed under the GEM Listing Rules. The number of Shares to be issued in respect of which options may be granted to a substantial shareholder or an independent non-executive Director of any of their respective close associates (within the meaning of the GEM Listing Rules) representing in aggregate over 0.1% of the total number of the Company’s issued shares on the date of such grant or with an aggregate value in excess of HK\$5,000,000 must be approved by shareholders of the Company in general meeting.

OTHER INFORMATION

An offer of a grant of share options shall be deemed to have been accepted when the duplicate letter comprising acceptance of the share option (the "Share Option") duly signed by the grantee together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company within the period specified in the letter containing the offer of the grant of the Share Option. Once the acceptance is made, the Share Option shall be deemed to have been granted and to have taken effect from the offer date. The period for the exercise of a share option is determined by the Board in its sole discretion, but such period shall not be more than 10 years from the date of grant of the option.

Under the Share Option Scheme, the subscription price payable upon exercise of any options granted is determined by the Board but in any event it shall be at least the highest of: (i) the nominal value of the Company's Shares; (ii) the closing price of the Company's Shares as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered to a participant; and (iii) the average of the closing prices of the Company's Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the option.

No share option has been granted since the adoption of the Share Option Scheme and there was no share option outstanding as at 31 December 2019.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than the Share Option Scheme, at no time during the six months ended 31 December 2019 was the Company, any of its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

During the six months ended 31 December 2019, 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.

OTHER INFORMATION

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 six months ended 31 December 2019.

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions by the Directors during the six months ended 31 December 2019.

DISCLOSURE OF INFORMATION OF DIRECTORS PURSUANT TO RULE 17.50A(1) OF THE GEM LISTING RULES

The change in information on Directors subsequent to the date of the 2019 annual report of the Company, which is required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules, is set out below:

Name of Director	Details of changes
Ms. Koay Lee Chern	re-designated from an executive Director to a non-executive Director with effect from 1 October 2019.
Ms. Ng Ka Wai	appointed as an executive Director with effect from 16 January 2020.

DEED OF NON-COMPETITION

A deed of non-competition (the "Deed of Non-competition") dated 20 April 2016 was entered into by Jumbo Planet and Mr. Lau in favour of the Company (for the Company and for the benefit of its subsidiaries) regarding non-competition undertakings. The details of the Deed of Non-competition have been disclosed in the Prospectus under the section headed "Relationship with our Controlling Shareholders" and the non-competition undertaking has become effective from 18 May 2016.

COMPETING BUSINESS AND CONFLICT OF INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the six months ended 31 December 2019.

OTHER INFORMATION

CORPORATE GOVERNANCE CODE

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 period under review.

OTHER EVENTS

Deloitte Touche Tohmatsu (“**Deloitte**”) has resigned as the auditor of the Company with effect from 17 January 2020. HLB Hodgson Impey Cheng Limited was appointed as the auditor of the Company with effect from 17 January 2020 to fill the casual vacancy following the resignation of Deloitte and to hold the office as auditor until the conclusion of the next annual general meeting of the Company.

AUDIT COMMITTEE

The Company has established an Audit Committee pursuant to a resolution of the Directors passed on 20 April 2016 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with the CG Code have been adopted. The primary duties of the Audit Committee are mainly to make recommendations to the Board on appointment or reappointment and removal of external auditor; review financial statements and material advice in respect of financial reporting; and oversee internal control procedures of the Company. At present, the Audit Committee of the Company consists of three independent non-executive Directors as members who are Mr. Ma Yiu Ho Peter, Mr. Lee Hon Man Eric and Mr. Cheung Wai Kuen. Mr. Ma Yiu Ho Peter who has the appropriate accounting and financial related management expertise, is the chairman of the Audit Committee.

The Group’s unaudited condensed consolidated financial statements for the six months ended 31 December 2019 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited condensed consolidated financial statements of the Group for the six months ended 31 December 2019 comply with applicable accounting standards, the GEM Listing Rules and that adequate disclosures have been made.

OTHER INFORMATION

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within knowledge of the Directors, the Company has maintained the prescribed public float under the GEM Listing Rules as at the date of this report.

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

Hong Kong, 6 February 2020

As at the date of this report, the executive Directors are Mr. Lau Man Tak, Mr. Vincent Ho Pang Cheng, Mr. Kan Wai Kee and Ms. Ng Ka Wai; the non-executive Director is Ms. Koay Lee Chern; and the independent non-executive Directors are Mr. Ma Yiu Ho Peter, Mr. Lee Hon Man Eric and Mr. Cheung Wai Kuen.