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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 2020**

**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 2020 together with the comparative figures for the year ended 30 June 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	4	93,971	96,163
Cost of sales		(84,725)	(82,706)
Gross profit		9,246	13,457
Other income	5	1,233	815
Selling and distribution costs		(2,599)	(2,897)
Administrative expenses		(21,540)	(23,293)
Finance cost	6	(80)	–
Other gains and losses	7	(190)	494
Allowance for expected credit loss of deposits and other receivables, net		(35)	–
Reversal for allowance for expected credit loss of trade receivables, net		131	33
Loss before tax		(13,834)	(11,391)
Income tax (charge)/credit	8	(358)	628
Loss for the year	9	(14,192)	(10,763)
Other comprehensive (expense)/income			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences arising on translation to presentation currency		(151)	44
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(1,974)	(1,838)
Other comprehensive expense for the year		(2,125)	(1,794)
Total comprehensive expense for the year		(16,317)	(12,557)
Loss per share — Basic and diluted (HK cents)	11	(2.37)	(1.79)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		15,199	15,882
Deposits paid for acquisition of property, plant and equipment		1,860	41
Deferred tax assets	<i>12</i>	488	828
		17,547	16,751
CURRENT ASSETS			
Inventories		40,247	44,833
Trade receivables, prepayments, deposits and other receivables	<i>13</i>	26,341	32,822
Tax recoverable		–	1,069
Pledged bank deposits		555	565
Bank balances and cash		37,714	45,212
		104,857	124,501
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	10,391	15,258
Tax payable		67	–
Lease liabilities		789	–
		11,247	15,258
NET CURRENT ASSETS		93,610	109,243
TOTAL ASSETS LESS CURRENT LIABILITIES		111,157	125,994
NON-CURRENT LIABILITY			
Lease liabilities		1,480	–
NET ASSETS		109,677	125,994
CAPITAL AND RESERVES			
Share capital	<i>15</i>	6,000	6,000
Reserves		103,677	119,994
TOTAL EQUITY		109,677	125,994

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

1. GENERAL

TEM Holdings Limited (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 of Hong Kong Limited (the “**Stock Exchange**”). The Company’s immediate holding company is Jumbo Planet Group Limited, a company incorporated in the British Virgin Islands (the “**BVI**”) and ultimate holding company is Perfect Asset Investments Limited, a company incorporated in the BVI. Its ultimate controlling party is Mr. Lau Man Tak, who is also the Chairman and a director of the Company. The address of the Company’s registered office is P. O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands and principal place of business in Hong Kong is located at Suite 1706, Tower 1, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Hong Kong.

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time in the current year:

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 Amendments, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associate and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases, and the related interpretations.

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.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 July 2019.

As at 1 July 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities, adjusted by the amount of any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. 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 applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- (i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- (ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- (iii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment;
- (iv) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options; and
- (v) 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.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities is 6.02%.

The lease liabilities as at 1 July 2019 reconciled to the operating lease commitments as at 30 June 2019 is as follows:

	<i>HK\$'000</i>
Operating lease commitment at 30 June 2019	2,617
Less: total future interest expenses	(19)
	2,598
Present value of remaining lease payments, discounted using the incremental borrowing rate and lease liabilities recognised as at 1 July 2019	2,598
Less: practical expedient-leases with lease term ending within 12 months from date of initial application	(2,222)
	376
Lease liabilities as at 1 July 2019	376
Analysed as:	
— Current	233
— Non-current	143
	376

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

	<i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 (<i>Note</i>)	<u>376</u>
	<i>HK\$'000</i>
Leased premises	<u>376</u>

Note: The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities at 1 July 2019.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position. Line items that were affected by the changes have not been included.

	Carrying amount previously reported at 30 June 2019 <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Carrying amount under HKFRS 16 at 1 July 2019 <i>HK\$'000</i>
Non-current asset			
Property, plant and equipment	<u>15,882</u>	<u>376</u>	<u>16,258</u>
Current liability			
Lease liabilities	<u>–</u>	<u>(233)</u>	<u>(233)</u>
Non-current liability			
Lease liabilities	<u>–</u>	<u>(143)</u>	<u>(143)</u>

New and amendments to HKFRSs in issue but not effective

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

Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 16	COVID-19-Related Rent Concessions ³
HKFRS 17	Insurance Contracts ⁴
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁵
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ⁵
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ⁵
Amendments to HKFRS Standards	Annual Improvements to HKFRS Standards 2018–2020 ⁵
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁵
Amendments to HKFRS 4	Extension of the Temporary Exemption from Applying HKFRS 9 ⁶
Amendments to HKFRS 17	Insurance Contracts ⁶
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁷

¹ Effective for annual periods beginning on or after 1 January 2020.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after 1 June 2020.

⁴ Effective for annual periods beginning on or after 1 January 2021.

⁵ Effective for annual periods beginning on or after 1 January 2022.

⁶ Effective for annual periods beginning on or after 1 January 2023.

⁷ Effective for annual periods beginning on or after a date to be determined.

In addition to the above new and amendments to HKFRSs, a revised “Conceptual Framework for Financial Reporting” was issued in 2018. Its consequential amendments, the “Amendments to References to the Conceptual Framework” in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Group anticipate the adoption of all New and Amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

4. REVENUE AND SEGMENT INFORMATION

Revenue

Disaggregation of revenue from contracts with customers

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Manufacture and sale of wire/cable harnesses	85,856	82,713
Manufacture and sale of power supply cords assembled products	6,838	9,506
Trading of terminals, connectors and others	1,277	3,944
	<hr/>	<hr/>
Revenue from contracts with customers	93,971	96,163
	<hr/> <hr/>	<hr/> <hr/>

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

Performance obligations for contracts with customers

The Group manufactures and sells a range of wire/cable harnesses, power supply cords assembled products and trading of terminals, connectors and other related products. Revenue is recognised when the control of the products are transferred to the customers at a point in time, being at the point the products are delivered to the customers with specified shipping terms. Upon delivery, the customers have full discretion over the usage of the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group have objective evidence that all criteria for acceptance have been satisfied. The credit terms are ranging from 30 days to 120 days (2019: 30 days to 150 days).

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Transaction price allocated to the remaining performance obligation for contracts with customers

Wire/cable harnesses, power supply cords assembled products, terminals, connectors and other related products are delivered within period less than one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Segment information

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) 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. No analysis of segment asset or segment liability is presented as such information is not regularly reviewed by 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 2020

	Manufacture and sale of wire/cable harnesses <i>HK\$'000</i>	Manufacture and sale of power supply cords assembled products <i>HK\$'000</i>	Trading of terminals, connectors and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External sales	<u>85,856</u>	<u>6,838</u>	<u>1,277</u>	<u>93,971</u>
Segment results	<u>7,648</u>	<u>1,313</u>	<u>285</u>	9,246
Other income				1,233
Selling and distribution costs				(2,599)
Administrative expenses				(21,540)
Finance cost				(80)
Other gains and losses				(190)
Allowance for expected credit loss of deposits and other receivables, net				(35)
Reversal of allowance for expected credit loss of trade receivables, net				<u>131</u>
Loss before tax				<u>(13,834)</u>

For the year ended 30 June 2019

	Manufacture and sale of wire/cable harnesses <i>HK\$'000</i>	Manufacture and sale of power supply cords assembled products <i>HK\$'000</i>	Trading of terminals, connectors and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External sales	<u>82,713</u>	<u>9,506</u>	<u>3,944</u>	<u>96,163</u>
Segment results	<u>11,234</u>	<u>1,458</u>	<u>765</u>	13,457
Other income				815
Selling and distribution costs				(2,897)
Administrative expenses				(23,293)
Other gains and losses				494
Reversal of allowance for expected credit loss of trade receivables, net				<u>33</u>
Loss before tax				<u>(11,391)</u>

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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The PRC	30,546	27,499
Asia Pacific region (excluding the PRC) (<i>Note</i>)	46,090	51,595
Western Europe	11,766	11,381
Americas	5,569	5,688
	93,971	96,163

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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The PRC	8,915	10,856
Malaysia	5,862	2,031
Others	2,282	3,036
	17,059	15,923

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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A ¹	37,084	43,449
Customer B ²	N/A*	9,833
Customer C ²	12,044	10,592
Customer D ²	16,590	N/A*

¹ Revenue was related to all operating segments.

² Revenue was related to manufacture and sale of wire/cable harnesses segment.

* Revenue generated from the customer did not contribute 10% or more of the Group's revenue in the corresponding year.

5. OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank interest income	380	588
Sales of scrap materials	–	30
Government grant (<i>Note</i>)	750	115
Others	103	82
	<u>1,233</u>	<u>815</u>

Note: The government grant represents a subsidy received by the subsidiaries of the Company, which mainly represents the one-off government grant of approximately HK\$501,000 from the PRC government for the PRC factory being certified as one of High New Technology Enterprise in China.

6. FINANCE COST

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on lease liabilities	<u>80</u>	<u>–</u>

7. OTHER GAINS AND LOSSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Net exchange (loss)/gain	(208)	315
Gain on disposal of property, plant and equipment	18	179
	<u>(190)</u>	<u>494</u>

8. INCOME TAX CHARGE/(CREDIT)

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The income tax charge/(credit) comprises:		
Current tax:		
PRC Enterprises Income tax	4	–
Malaysia Corporate Income tax	69	–
Overprovision in prior years	(27)	(28)
	<u>46</u>	<u>(28)</u>
Deferred tax charge/(credit) (<i>Note 12</i>)	312	(600)
	<u>358</u>	<u>(628)</u>

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%.

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 years. No provision for Hong Kong Profits Tax has been made as the group entities have no assessable profits for both years.

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 year ended 30 June 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 years. No provision for Malaysia corporate income tax has been made as the group entities have no assessable profits for the both year.

The income tax rate applicable in Singapore is 17% for both years. No provision for Singapore corporate income tax has been made as the group entity has no assessable profits for the current year. The 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 SGD190,000 chargeable income) for the year 2020.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss before tax	<u>(13,834)</u>	<u>(11,391)</u>
Tax at the average income tax rate of 16.3% (2019: 15.4%)	(2,256)	(1,756)
Tax effect of expenses not deductible for tax purpose	1,216	720
Tax effect of income not taxable for tax purpose	(138)	(81)
Tax effect of tax losses not recognised	1,812	1,240
Overprovision in prior years	(27)	(28)
Others	<u>(249)</u>	<u>(723)</u>
Income tax charge/(credit) for the year	<u>358</u>	<u>(628)</u>

9. LOSS FOR THE YEAR

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss for the year has been arrived at after charging/(crediting):		
Directors' remuneration:		
— Fees	674	580
— Salaries and other allowances	3,052	2,941
— Retirement benefit scheme contributions	102	95
	<u>3,828</u>	<u>3,616</u>
Other staff costs	24,733	26,496
Retirement benefit scheme contributions, excluding those of directors	1,670	2,800
	<u>30,231</u>	<u>32,912</u>
Total staff costs (including directors' remuneration)	30,231	32,912
Capitalised in inventories	(17,693)	(19,576)
	<u>12,538</u>	<u>13,336</u>
Auditors' remuneration		
— Audit service		
— HLB Hodgson Impey Cheng Limited	680	—
— Other auditor	120	1,201
— Non-audit service		
— Other auditor	—	141
	<u>800</u>	<u>1,342</u>
Cost of inventories recognised as an expense	56,663	53,580
Depreciation of property, plant and equipment	4,348	4,252
Short-term lease expenses	2,307	—
Minimum lease payments on land and buildings classified as operating leases under HKAS 17	—	3,564
Inventories write-down, net*	3,407	—
Reversal of inventories write-down, net	—	(81)
Allowance for expected credit loss on deposits and other receivables	35	—
Reversal of allowance for expected credit loss on trade receivables	(131)	(33)
	<u><u>12,538</u></u>	<u><u>13,336</u></u>

* The net inventories write-down was included in the cost of sales.

10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders by the Company during the years ended 30 June 2020 and 2019, nor has any dividend been proposed since the end of the reporting period.

11. LOSS PER SHARE

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

	2020 HK\$'000	2019 <i>HK\$'000</i>
Loss:		
Loss for the year attributable to owners of the Company	<u>(14,192)</u>	<u>(10,763)</u>
	2020 '000	2019 <i>'000</i>
Number of shares:		
Number of ordinary shares for the purpose of basic loss per share	<u>600,000</u>	<u>600,000</u>

Basic loss per share is the same as diluted loss per share as the Company has no dilutive potential ordinary shares for both years.

12. DEFERRED TAX ASSETS

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

	Accelerated tax depreciation <i>HK\$'000</i>	Allowance for inventories <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 July 2018	(674)	472	357	101	256
Credit/(charge) to profit or loss	69	(118)	338	311	600
Exchange alignment	48	(12)	(2)	(62)	(28)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 30 June 2019 and 1 July 2019	(557)	342	693	350	828
Credit/(charge) to profit or loss	90	93	(330)	(165)	(312)
Exchange alignment	5	(17)	(6)	(10)	(28)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 30 June 2020	<u>(462)</u>	<u>418</u>	<u>357</u>	<u>175</u>	<u>488</u>

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 retained profits of the PRC subsidiary amounting to HK\$669,000 (2019: HK\$2,888,000) 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 HK\$42,061,000 (2019: HK\$31,936,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$1,428,000 (2019: HK\$2,829,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$40,633,000 (2019: HK\$29,107,000) due to the unpredictability of future profit streams. Included in the unrecognised tax losses are tax losses of HK\$362,000, HK\$2,324,000 and HK\$3,677,000 which will lapse in 2023, 2024 and 2025 respectively, (2019: tax losses of HK\$362,000 and HK\$2,324,000 which will lapse in 2023 and 2024), the remaining tax losses may be carried forward indefinitely.

13. TRADE RECEIVABLES, PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	23,935	28,869
Less: Allowance for expected credit loss	(362)	(493)
	<u>23,573</u>	<u>28,376</u>
Prepayments, deposits and other receivables	2,803	4,446
Less: Allowance for expected credit loss	(35)	–
	<u>2,768</u>	<u>4,446</u>
Total	<u>26,341</u>	<u>32,822</u>

Included in trade receivables are amounts due from related parties of HK\$177,000 (2019: HK\$610,000), which are unsecured, interest-free and repayable with credit period of 30 days.

The Group allows credit period ranging from 30 days to 120 days to its customers (2019: 30 days to 150 days).

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0–30 days	8,457	9,174
31–60 days	6,971	7,249
61–90 days	4,457	5,985
91–120 days	3,688	5,667
Over 120 days	–	301
	<u>23,573</u>	<u>28,376</u>

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. As at 30 June 2020 and 2019, the majority of the trade receivables that are neither past due nor impaired have no history of defaulting on repayments.

As at 30 June 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$1,466,000 (2019: HK\$5,317,000) which are past due as at the reporting date. Out of the past due balances, none of the trade receivables have been past due 90 days or more. The Group does not hold any collateral over these balances.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
US\$	10,545	21,592
Euro (“EUR”)	2,208	2,014

14. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	4,710	9,678
Other tax payables and accruals (<i>Note</i>)	5,681	5,580
	10,391	15,258

Note: As at 30 June 2020, other tax payables and accruals mainly comprised of accrued staff cost of approximately HK\$2,094,000 (2019: HK\$2,463,000).

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0–30 days	1,639	6,428
31–60 days	1,323	1,907
61–90 days	686	1,198
Over 90 days	1,062	145
	4,710	9,678

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
US\$	680	2,716
EUR	648	2,720

15. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
As at 1 July 2018, 30 June 2019, 1 July 2019 and 30 June 2020	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:		
As at 1 July 2018, 30 June 2019, 1 July 2019 and 30 June 2020	<u>600,000</u>	<u>6,000</u>

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 People's Republic of the China (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.

For the year ended 30 June 2020, the Group recorded a revenue of approximately HK\$93,971,000, a drop of approximately 2.3% from the last year. Gross profit declined by 31.3% from approximately HK\$13,457,000 for the year ended 30 June 2019 to HK\$9,246,000 for the year ended 30 June 2020. The decline in gross profit was mainly caused by (i) the provision of write-down of inventories amounted approximately HK\$3,407,000; and (ii) the adoption of a more competitive pricing strategy under the intensive market competition. The loss for the year was approximately HK\$14,192,000, increased by approximately 31.9% from HK\$10,763,000 for the year ended 30 June 2019.

The outbreak of the COVID-19 in early 2020 and the trade tension between China and the United States have disrupted the world economy to a large extent. During the year under review, series of stringent precautionary and control measures have been implemented by governments of various countries and regions, in some of which the Group has manufacturing plants, to control the spread of the COVID-19, which led to market uncertainties and instabilities of the orders for the Group's products.

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 year ended 30 June					
	2020		2019		Increase/(Decrease)	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Manufacture and sale of wire/cable harnesses	85,856	91.4	82,713	86.0	3,143	3.8
Manufacture and sale of power supply cords assembled products	6,838	7.3	9,506	9.9	(2,668)	(28.1)
Trading of terminals, connectors and others	1,277	1.3	3,944	4.1	(2,667)	(67.6)
	<u>93,971</u>	<u>100.0</u>	<u>96,163</u>	<u>100.0</u>	<u>(2,192)</u>	<u>(2.3)</u>

The revenue of manufacture and sale of wire/cable harnesses increased to approximately HK\$85,856,000 for the year ended 30 June 2020 from approximately HK\$82,713,000 for the year ended 30 June 2019. The gross profit of this segment was approximately HK\$7,648,000 for the year ended 30 June 2020. The revenue of manufacture and sale of power supply cords assembled products was approximately HK\$6,838,000 for the year ended 30 June 2020, representing a fall of 28.1% as compared to approximately HK\$9,506,000 for the year ended 30 June 2019. The gross profit of this segment was approximately HK\$1,313,000 for the year ended 30 June 2020. The revenue of trading of terminals, connectors and others was approximately HK\$1,277,000 for the year ended 30 June 2020, representing a fall of 67.6% as compared to approximately HK\$3,944,000 for the year ended 30 June 2019. The gross profit of this segment was approximately HK\$285,000 for the year ended 30 June 2020.

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					
	2020		2019		Increase/(Decrease)	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
The PRC	30,546	32.5	27,499	28.6	3,047	11.1
Asia Pacific region (excluding the PRC)	46,090	49.1	51,595	53.7	(5,505)	(10.7)
Western Europe	11,766	12.5	11,381	11.8	385	3.4
Americas	5,569	5.9	5,688	5.9	(119)	(2.1)
	<u>93,971</u>	<u>100.0</u>	<u>96,163</u>	<u>100.0</u>	<u>(2,192)</u>	<u>(2.3)</u>

The revenue from the PRC recorded HK\$30,546,000 for the year ended 30 June 2020, accounted for 32.5% of the Group's total revenue which represented an increase of 11.1% as compared to approximately HK\$27,499,000 for the year ended 30 June 2019. The revenue from Asia Pacific region (excluding the PRC) was approximately HK\$46,090,000 for the year ended 30 June 2020 and accounted for 49.1% of the Group's total revenue, representing a decrease of 10.7% as compared to approximately HK\$51,595,000 for the year ended 30 June 2019. The revenue from Western Europe was approximately HK\$11,766,000 for the year ended 30 June 2020 and accounted for 12.5% of the Group's revenue, representing an increase of 3.4% as compared to approximately HK\$11,381,000 for the year ended 30 June 2019. The revenue from Americas was approximately HK\$5,569,000 for the year ended 30 June 2020 and accounted for 5.9% of the Group's total revenue, representing a decrease of 2.1% as compared to approximately HK\$5,688,000 for the year ended 30 June 2019.

The rapid outbreak and large-scale spread of the COVID-19 across the world since February 2020 had a disruptive impact on the economic sentiment coupled with unstable supply chains of various industries in many countries resulting a significant reduction of economic activities worldwide. Our PRC Factory resumed production on 12 February 2020, three weeks after production halt since the Chinese New Year holidays and the suspension period prescribed by the relevant PRC Government authorities which, amongst other things, lead to the drop of production capacity in our PRC Factory.

Our Malaysia Factory was also affected by the implementation of the Restriction of Movement Order (the “**Order**”) announced by the Malaysian Government on 16 March 2020. This Order, effective nationwide initially for 2 weeks from 18 March 2020 and our Malaysia Factory was therefore requested to shut down. We had managed to obtain the conditional approval on 19 April 2020 from the Malaysia government to partially resume the operation in our Malaysia Factory subject to certain health precautionary requirements. Nonetheless, under these circumstances the production capacity of our Malaysia Factory is still far behind from its full capacity due to the uncertainty of labour workforce and lower efficiency after implementing the necessary measures to curb against the COVID-19. The Order was later changed to Conditional Movement Control Order on 4 May 2020 and then to Recovery Movement Control Order (the “**RMCO**”) on 10 June and the RMCO will be extended until the end of 2020. The continuance of the RMCO is expected to continue to have a disruption on our Malaysia Factory’s operations including delay in receipt of raw material and delivery of finished products and the receipt of visit of customers from outside Malaysia. As at the date of this announcement, both our PRC and Malaysia Factories had substantially restored to its normal operation.

For the year under review, the overall demand for electronic products and components had fallen due to the battered global economy by the COVID-19 outbreak. Besides, the outlook for coming months is uncertain especially with the recent levels of geopolitical risk increased in particular markets and are expected to have economic impacts for the worldwide.

OUTLOOK

It was an unprecedented year of challenge for the Group in the financial year of 2019/20. The trade tensions between China and the United States lingered in 2019 followed by the outbreak of the COVID-19 pandemic in early 2020. We encounter a global economy overcast by a lot of uncertainties.

The Group will closely monitor how such developments will affect our operations and will utilize our utmost efforts to mitigate those impacts.

FINANCIAL REVIEW

Revenue

The Group’s revenue decreased from approximately HK\$96,163,000 for the year ended 30 June 2019 to approximately HK\$93,971,000 for the year ended 30 June 2020. Such drop is attributable to (i) the temporary shut down in both PRC factory and Malaysia factory between February and April 2020 due to the COVID-19 outbreak; the estimated aggregate non-production days of the Group was about six weeks; and (ii) the ongoing price competitions.

Cost of sales and gross profit

Due to (i) the provision of write-down of inventories amounted approximately HK\$3,407,000; and (ii) the ongoing price competitions, the gross profit margin decreased from 14.0% for the year ended 30 June 2019 to 9.8% for the year ended 30 June 2020. As a result, the gross profit of the Group fell by 31.3% from approximately HK\$13,457,000 for the year ended 30 June 2019 to approximately HK\$9,246,000 for the year ended 30 June 2020.

Other income

Other income increased by 51.3% from approximately HK\$815,000 for the year ended 30 June 2019 to approximately HK\$1,233,000 for the year ended 30 June 2020. Such increase was mainly due to the one-off government grant of approximately HK\$501,000 from the PRC government for our PRC factory being certified as one of 高新技術企業 (High-New Technology Enterprise) in China during November 2018.

Selling and distribution costs

The Group's selling and distribution costs mainly consisted of transportation, marketing and promotion expenses and storage costs, amounted to approximately HK\$2,599,000 for the year ended 30 June 2020 and decreased from approximately HK\$2,897,000 for the year ended 30 June 2019. The decrease was mainly due to the decrease in the marketing and promotion expenses given the international travelling became very difficult during the COVID-19.

Administrative expenses

The Group's administrative expenses, mainly comprised of staff costs, rental expenses, general office expenses, depreciation, licence fees, professional fees and travelling expenses reduced by 7.5% from approximately HK\$23,293,000 for the year ended 30 June 2019 to approximately HK\$21,540,000 for the year ended 30 June 2020. Such decrease was mainly due to the continuous stringent control measures imposed by the Group.

Finance cost

Finance cost increased by approximately HK\$80,000 was mainly due to the increase of interest on lease liabilities for the year ended 30 June 2020 (2019: nil).

Other gains and losses

Other gains and losses mainly comprised of net exchange loss and gain on disposal of property, plant and equipment, which amounted to net other loss of approximately HK\$190,000 for the year ended 30 June 2020 as compared to net other gains of approximately HK\$494,000 for the year ended 30 June 2019. For the year ended 30 June 2020, the Group recognized net exchange loss of approximately HK\$208,000 as a result of depreciation of Renminbi against HK\$.

Income tax (charge)/credit

The Group recorded income tax expense of approximately HK\$358,000 for the year ended 30 June 2020 which is a reversal from income tax credit of approximately HK\$628,000 for the year ended 30 June 2019. The change was mainly due to the provision of Malaysia Corporate Income Tax.

Loss for the year

The Group recorded a loss for the year ended 30 June 2020 was approximately HK\$14,192,000. For the year ended 30 June 2019, the Group also recorded a loss in the amount of approximately HK\$10,763,000.

Dividends

The Board does not recommend the payment of any final dividend for the year ended 30 June 2020.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had a financial position with net assets amounted to approximately HK\$109,677,000 (2019: approximately HK\$125,994,000) and net current assets stood at approximately HK\$93,610,000 (2019: approximately HK\$109,243,000).

As at 30 June 2020, shareholders' fund amounted to approximately HK\$109,677,000 (2019: approximately HK\$125,994,000) and current assets amounted to approximately HK\$104,857,000 (2019: approximately HK\$124,501,000), mainly comprising of bank balances and cash, trade receivables, prepayments, deposits and other receivables and inventories. Current liabilities amounted to approximately HK\$11,247,000 (2019: approximately HK\$15,258,000) comprising of trade and other payables, lease liabilities and tax payable. The Group's bank balances and cash amounted to approximately HK\$37,714,000 (2019: approximately HK\$45,212,000). Net asset value per share was HK\$0.18 (2019: HK\$0.21).

Gearing Ratio

The Group's gearing ratio as at 30 June 2020 was 0.7% (2019: nil), which is calculated based on the lease liabilities divided by the equity.

Capital Structure

The share capital of the Company only comprises of ordinary shares. There was no change in the Company's capital structure during the year.

As at 30 June 2020, 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 Malaysian Ringgit (“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. The 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 2020 and 2019, the Group did not hold any significant investments.

Contingent Liabilities

As at 30 June 2020 and 2019, the Group did not have any material contingent liabilities.

Capital Commitments

As at 30 June 2020 the Group had approximately HK\$2,362,000 (2019: approximately HK\$637,000) capital commitments mainly related to acquisition of machines.

Employee and Remuneration Policies

As at 30 June 2020, the Group had a total workforce of 394 (2019: 429) employees. Total staff costs for the year ended 30 June 2020 amounted to approximately HK\$30,231,000 (2019: approximately HK\$32,912,000). 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 2020, the bank deposits of approximately HK\$555,000 (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 year, 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 30 June 2020, the Group did not have other plans for material investments and capital assets.

Use of Proceeds

The net proceeds from the listing of the shares of the Company on GEM of the 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 30 June 2020, the unutilised proceeds from the Listing in the amount of approximately HK\$20,835,000 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 2020 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 30 June 2020 HK\$'000	Unutilised balance as at 30 June 2020 HK\$'000
Upgrade and increase our production capacity	40,978	20,143	20,835
Enhance our manufacturing, information technology and human resources management capabilities	4,528	4,528	–
Strengthen our sales and marketing efforts	6,226	6,226	–

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

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 2020.

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 2020.

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 2020.

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

During the year ended 30 June 2020, 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 2020 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 2020 comply with the applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

SCOPE OF WORK OF HLB HODGSON IMPEY CHENG LIMITED

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 2020 as set out in the preliminary announcement have been agreed by the Group's auditors, HLB Hodgson Impey Cheng Limited ("HLB"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLB 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 HLB on the preliminary announcement.

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

Hong Kong, 15 September 2020

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. Ng Ka Wai; 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.

This announcement will remain on the “Latest Listed Company Information” page of the GEM website www.hkgem.com for at least 7 days from the date of its publication and on the website of the Company at www.tem-group.com.