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Computime

COMPUTIME GROUP LIMITED

金寶通集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 320)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

The board of directors (the "**Board**") of Computime Group Limited (the "**Company**" or "**Computime**") is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 September 2019 ("**1H FY19/20**", or the "**Period**"), together with the comparative figures for the six months ended 30 September 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**For the six months ended 30 September 2019 (Unaudited) *HK$'000***	2018 (Unaudited) *HK$'000*
REVENUE	*3, 4*	**1,601,362**	1,532,361
Cost of sales		**(1,378,327)**	(1,307,957)
Gross profit		**223,035**	224,404
Other income		**3,948**	4,873
Selling and distribution expenses		**(57,426)**	(49,863)
Administrative expenses		**(140,699)**	(127,653)
Other operating income/(expenses), net		**427**	(8,120)
Finance costs	*5*	**(13,956)**	(13,137)
Share of profit/(loss) of an associate		**1,754**	(493)
PROFIT BEFORE TAX	*6*	**17,083**	30,011
Income tax expense	*7*	**(398)**	(5,103)
PROFIT FOR THE PERIOD		**16,685**	24,908

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

	Note	**For the six months ended 30 September** **2019** **(Unaudited)** ***HK$'000***	2018 (Unaudited) *HK$'000*
ATTRIBUTABLE TO:			
Owners of the Company		**16,688**	24,910
Non-controlling interests		**(3)**	(2)
		16,685	24,908
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	*9*		
Basic		**1.99 HK cents**	2.97 HK cents
Diluted		**1.98 HK cents**	2.95 HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**16,685**	24,908
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	**–**	9,401
Reclassification adjustments for losses included in the condensed consolidated statement of profit or loss	**–**	6,794
	–	16,195
Exchange differences on translation of foreign operations	**(56,706)**	(84,779)
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD, NET OF TAX	**(56,706)**	(68,584)
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	**(40,021)**	(43,676)
ATTRIBUTABLE TO:		
Owners of the Company	**(40,018)**	(43,674)
Non-controlling interests	**(3)**	(2)
	(40,021)	(43,676)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 September 2019 (Unaudited)** *HK$'000*	31 March 2019 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**237,411**	234,876
Right-of-use assets		**35,009**	–
Goodwill		**36,420**	36,420
Club debenture		**705**	705
Intangible assets		**168,838**	154,543
Interest in an associate		**6,920**	5,166
Financial asset at fair value through other comprehensive income		**–**	–
Prepayments and deposits		**5,497**	5,828
Deferred tax assets		**16,371**	13,052
Total non-current assets		**507,171**	450,590
CURRENT ASSETS			
Inventories		**776,751**	670,969
Trade receivables	*10*	**496,070**	605,868
Prepayments, deposits and other receivables		**71,896**	52,355
Tax recoverable		**4,787**	–
Derivative financial instruments		**–**	294
Cash and cash equivalents		**369,652**	436,488
Total current assets		**1,719,156**	1,765,974
CURRENT LIABILITIES			
Trade and bills payables	*11*	**692,078**	592,091
Other payables and accrued liabilities		**77,567**	89,409
Interest-bearing bank borrowings		**145,860**	210,039
Amount due to a non-controlling shareholder		**–**	160
Tax payable		**–**	6,540
Dividend payable		**13,772**	–
Contract liabilities		**2,863**	4,934
Lease liabilities		**25,203**	–
Total current liabilities		**957,343**	903,173
NET CURRENT ASSETS		**761,813**	862,801
TOTAL ASSETS LESS CURRENT LIABILITIES *(to be continued)*		**1,268,984**	1,313,391

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	30 September 2019 (Unaudited) *HK$'000*	31 March 2019 (Audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES *(continued)*	**1,268,984**	1,313,391
NON-CURRENT LIABILITIES		
Lease liabilities	**11,911**	–
Deferred tax liabilities	**24,464**	24,464
Total non-current liabilities	**36,375**	24,464
Net assets	**1,232,609**	1,288,927
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**83,974**	83,974
Reserves	**1,147,896**	1,204,211
	1,231,870	1,288,185
Non-controlling interests	**739**	742
Total equity	**1,232,609**	1,288,927

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 23 June 2006 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business is located at 6/F, Building 20E, Phase 3, Hong Kong Science Park, 20 Science Park East Avenue, Shatin, New Territories, Hong Kong.

The Group is principally engaged in the research and development, design, manufacture and trading of electronic control products.

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 September 2019 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

Save for the adoption of the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**"), which include HKASs, during the Period as set out in note 2.2 below, the accounting policies and basis of preparation adopted in the preparation of the interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 March 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2019, except for the adoption of the new and revised HKFRSs effective as of 1 April 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial statements. The nature and impact of the new and revised HKFRSs are described below:

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 April 2019, and the comparative information for 2018/19 was not restated and continues to be reported under HKAS 17.

<u>New definition of lease</u>

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g. property management services for leases of properties) as a single lease component.

<u>As a lessee – Leases previously classified as operating leases</u>

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 16 Leases *(Continued)*

As a lessee – Leases previously classified as operating leases *(Continued)*

Impacts on transition

Lease liabilities at 1 April 2019 were recognised based on the present value of the remaining lease payment, discounted using the incremental borrowing rate at 1 April 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 April 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 April 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/ terminate the lease
- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluded the initial direct costs from the measurement of the right of use asset at date of initial application

The impacts arising from the adoption of HKFRS 16 as at 1 April 2019 are as follows:

	Increase/ (decrease) *HK$'000* (Unaudited)
Assets	
Increase in right-of-use assets and total assets	56,272
Liabilities	
Increase in lease liabilities and total liabilities	59,325
Decrease in retained profits	(3,053)

The lease liabilities as at 1 April 2019 reconciled to the operating lease commitments as at 31 March 2019 is as follows:

	HK$'000 (Unaudited)
Operating lease commitments as at 31 March 2019	62,536
Weighted average incremental borrowing rate as at 1 April 2019	4.5%
Discounted operating lease commitments as at 1 April 2019	59,325
Lease liabilities as at 1 April 2019	59,325

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 16 Leases *(Continued)*

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 March 2019 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 April 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

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. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 16 Leases *(Continued)*

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movement during the Period are as follow:

	Right-of-use assets (Unaudited) *HK$'000*	**Lease liabilities (Unaudited)** *HK$'000*
As at 1 April 2019	**56,272**	**59,325**
Addition	**3,517**	**3,517**
Depreciation charge	**(22,879)**	**–**
Interest expense	**–**	**1,172**
Payments	**–**	**(24,918)**
Exchange realignment	**(1,901)**	**(1,982)**
As at 30 September 2019	**35,009**	**37,114**

3. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax.

	Smart Solutions For the six months ended 30 September		Contract Manufacturing Services For the six months ended 30 September		Total For the six months ended 30 September	
	2019	2018	**2019**	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**632,790**	561,602	**968,572**	970,759	**1,601,362**	1,532,361
Segment results	**37,340**	46,475	**39,920**	31,523	**77,260**	77,998
Bank interest income					**898**	1,247
Other income (excluding bank interest income)					**3,050**	3,626
Corporate and other unallocated expenses					**(51,923)**	(39,230)
Finance costs					**(13,956)**	(13,137)
Share of profit/(loss) of an associate	**1,754**	(493)	**–**	–	**1,754**	(493)
Profit before tax					**17,083**	30,011
Income tax expense					**(398)**	(5,103)
Profit for the period					**16,685**	24,908

	Smart Solutions		Contract Manufacturing Services		Total	
	30 September 2019	31 March 2019	**30 September 2019**	31 March 2019	**30 September 2019**	31 March 2019
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**725,826**	769,005	**735,296**	674,217	**1,461,122**	1,443,222
Interest in an associate	**6,920**	5,166	**–**	–	**6,920**	5,166
Corporate and other unallocated assets					**758,285**	768,176
Total assets					**2,226,327**	2,216,564

5. FINANCE COSTS

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**12,784**	13,137
Interest on lease liabilities	**1,172**	–
	13,956	13,137

6. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**1,378,327**	1,289,460
Depreciation of property, plant and equipment	**26,766**	26,099
Depreciation of right-of-use assets	**22,879**	–
Amortisation of intangible assets#	**29,275**	23,832
Write-down/(reversal of write-down) of inventories to net realisable value##	**4,494**	(1,736)
Interest income	**(898)**	(1,247)
Foreign exchange differences, net###	**1,170**	9,050
Impairment/(reversal of impairment) of trade receivables###	**(449)**	82

The amortisation of intangible assets for the Period is included in "Administrative expenses" on the face of the condensed consolidated statement of profit or loss.

Write-down/(reversal of write-down) of inventories to net realisable value is included in "Cost of sales" on the face of the condensed consolidated statement of profit or loss.

Foreign exchange differences, net and impairment of trade receivables are included in "Other operating income/(expenses), net" on the face of the condensed consolidated statement of profit or loss.

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group entities operate.

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**380**	4,919
Current – Mainland China and other countries	**3,338**	184
Deferred	**(3,320)**	–
Total tax charge for the period	**398**	5,103

The share of tax attributable to associate amounting to HK$30,000 (2018: Nil) is included in "Share of profit of an associate" in the condensed consolidated statement of profit or loss.

8. DIVIDENDS

No payment of interim dividend for the six months ended 30 September 2019 is recommended (2018: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the Period attributable to owners of the Company of HK$16,688,000 (six months ended 30 September 2018: HK$24,910,000) and the weighted average number of ordinary shares of 839,740,000 (six months ended 30 September 2018: 839,740,000) in issue during the Period.

The calculation of diluted earnings per share is based on the profit for the Period attributable to owners of the Company of HK$16,688,000 (six months ended 30 September 2018: HK$24,910,000). The weighted average number of ordinary shares used in the calculation of 841,135,000 (six months ended 30 September 2018: 845,374,000) is the number of ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

A reconciliation between the weighted average number of shares used in calculating the basic and diluted earnings per share is as follows:

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares used in calculating the basic earnings per share	**839,740,000**	839,740,000
Weighted average number of ordinary shares assumed to have been issued at nil consideration on deemed exercise of all dilutive options in issue during the period	**1,395,000**	5,634,000
Weighted average number of ordinary shares used in calculating the diluted earnings per share	**841,135,000**	845,374,000

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period granted to customers generally ranges from one to three months. The Group maintains strict credit control over its customers and outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. At the end of the reporting period, 12.2% (31 March 2019: 10.2%) and 50.5% (31 March 2019: 30.0%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the payment due date and net of provisions, is as follows:

	30 September 2019 (Unaudited) ***HK$'000***	31 March 2019 (Audited) *HK$'000*
Current and due within 1 month	**487,090**	568,177
1 to 2 months	**2,495**	15,284
2 to 3 months	**102**	12,807
Over 3 months	**6,383**	9,600
	496,070	605,868

Included in trade receivables is an amount due from an associate of HK$16,347,000 (31 March 2019: HK$41,075,000) which is repayable on credit terms similar to those offered to the major customers of the Group.

As part of its normal business, the Group entered into a trade receivable factoring arrangement (the "**Arrangement**") pursuant to which the Group assigned the rights to certain trade receivables to certain banks. The Group is not exposed to default risks of the trade debtors after the assignment. The Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. Trade receivables as if without assignment of the Arrangement as at 30 September 2019 was HK$1,081,016,000 (as at 31 March 2019: HK$1,283,288,000).

11. TRADE AND BILLS PAYABLES

An ageing analysis of trade and bills payables as at the end of the reporting period, based on the payment due date, is as follows:

	30 September 2019 (Unaudited) ***HK$'000***	31 March 2019 (Audited) *HK$'000*
Current and due within 1 month	**593,644**	398,179
1 to 2 months	**72,714**	123,331
2 to 3 months	**7,081**	32,408
Over 3 months	**18,639**	38,173
	692,078	592,091

The trade payables are non-interest-bearing and generally have payment terms ranging from one to three months.

12. EVENTS AFTER THE REPORTING PERIOD

(a) Renewal of lease agreement

On 29 October 2019, the Company entered into a lease agreement with a landlord in respect of the renewal of the lease of the premises for a term of three years commencing from 1 January 2020 to 31 December 2022 for use as factory, dormitory and office of the Group. Details were disclosed in the announcement of the Company dated on 29 October 2019.

(b) Subscription of shares in CT Nova Limited

On 21 November 2019, the Board resolved that a wholly-owned subsidiary of the Company, Global Zone Holdings Limited, entered into an agreement to subscribe certain shares of CT Nova Limited, a company wholly owned by Mr. AUYANG Pak Hong, Bernard, a son of Mr. AUYANG Ho, an executive Director and chairman of the Board. Details of which were disclosed in the announcement of the Company dated on 21 November 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

With over 40 years of experience in the electronics manufacturing service ("**EMS**") industry, the Company has always sought to deliver quality creative engineering solutions to end customers. As the market became increasingly saturated over the last decade with fierce competition and growing cost pressure, the Company had since taken revolutionary steps to transform itself into a market-driven technology solutions provider. Today, Computime has evolved into a global player of Internet of Things ("**IoT**"), and is widely recognised as one of the premium suppliers of innovative smart solutions.

Market Overview

The general market environment has been challenging in the recent year, particularly for the EMS industry. According to the Ministry of Industry and Information Technology of China, EMS industry's output growth in the first 3 quarters of 2019 has slowed by 4.3% year-over-year ("**YoY**"), whereas the output growth for EMS component exports also recorded a decline from 15.7% in September 2018 to 0.3% in September 2019, likely as a result of the growing conservatism over trading tariffs and high material costs. While the EMS industry in China suffers, Computime have turned its sights to the thriving IoT industry.

According to Strategy Analytics, the global number of households with smart systems is expected to reach 293 million by 2023, as market output reaches US$155 billion. Notably, smart solutions technology is expected to be widely adopted by the hospitality industry. MarketsandMarkets predicts that by 2021, smart hospitality market value would reach US$18.1 billion, with a compound annual growth rate of 25.8% from US$5.74 billion of 2016. Within this market, Europe is expected to be the largest geographical segment, followed by North America and the APEC region.

With such an enormous addressable market in place, building a one-stop, fully integrated home comfort smart system with wide geographical footprint would present promising future growth. Adding the increasing awareness of energy conservation and green energy into consideration, smart system remains on track to be the next breakthrough for the industry and for Computime.

Financial Performance

The Sino-US trade tension, the issue of Brexit, and the overall economic downturn has created much uncertainties in the macro environment, causing prudence in overall market sentiment as end users delay or restrict consumptions. Combined with the sharp and unexpected one-off increase in material and component costs last year, this has created a difficult environment for Computime to navigate. However, thanks to strategic actions carried out during the six months ended 30 September 2019, the Group's revenue enjoyed a 4.5% YoY increase to HK$1,601.4 million compared to the corresponding period in 2018.

As for gross margin, it experienced a slight decrease from 14.6% of last year corresponding period to 13.9% of this Period, mainly attributable to the unfavourable fix and one-time restructuring cost in China factories. Cost ratio (% to revenue) of selling and distribution expenses, as well as administrative expenses of this Period both recorded slight increases of 0.3%pt and 0.5%pt respectively compared to its corresponding period in 2018, attributable to additional talent pool added to drive multiple new projects identified. As a result, profit attributable to owners of the Company landed at HK$16.7 million for the Period, representing a decrease of 33.0% from HK$24.9 million of corresponding period last year.

In terms of operational efficiency and capital management, the Group sees significant improvement on YoY basis. As at 30 September 2019, inventory amounted to HK$776.8 million, representing a decrease of 19.9% from HK$969.5 million as at the same date of last year as a result of strengthened inventory management. Comparing the inventory balance as at 30 September 2019 to 31 March 2019 (HK$671.0 million), it is slightly higher which simply reflects the seasonality of our business and corresponding production planning. Furthermore, contributed by reinforcement of credit management initiatives, trade receivables also recorded a decrease of 18.1% to HK$496.1 million (31 March 2019: HK$605.9 million), such improvement has led to a 35.6% increase in cash and cash equivalents, with it reaching HK$369.7 million (as at 30 September 2018: HK$272.6 million). The cash and cash equivalents as at 30 September 2019 is slightly lower than that as at 31 March 2019 (HK$436.5 million) which is also just a reflection of seasonality.

Net cash position of the Group improved substantially from HK$40.3 million as at 30 September 2018 to HK$223.8 million as at 30 September 2019 driven by improvement in overall efficiency in the whole cash conversion cycle in multiple dimensions of working capital management. Net cash position as at 31 March 2019 was HK$226.4 million.

Business Review

During the Period, Computime remained ever committed to transform itself into a provider of Smart Solutions ("**SS**"), offering premium home comfort and energy conservation to end users under various settings, while utilising its strong competencies and resources to provide Contract Manufacturing Services ("**CMS**") to its clients, in turn securing a stable cash flow that fuels the continual evolution of the Group's SS segment.

The SS segment, which accounted for 39.5% of the Group's 1H FY19/20 revenue, aligns the Company's vast technological know-how and capabilities and focuses them on products and total system solutions within the IoT field. During the Period, segmental revenue for the SS business rose by 12.7% while segmental profit margin reduced slightly by 2.4%pt (2019: 5.9% and 2018: 8.3%) due to our continuous investment in research and development in addition to price decline and unfavourable product mix. One fast-growing product line is our own brand SALUS, which is an integrated set of software, firmware, and hardware that covers heating, ventilation and air conditioning solutions. During the Period, the Company continued to develop the SALUS brand, and has successfully introduced new features such as industry-leading level of energy saving. Such features are particularly attractive to hospitality services and multi-property management, as they empower operators with greater cost control in the form of energy usage monitoring and conservation. Specifically, Computime is working with several renowned hotel chains in North America for the trial run of its smart solutions. Additionally, the Company is also exploring opportunities in multi-family apartment complexes in the United States in energy-saving IoT solutions.

The CMS business segment, which accounted for 60.5% of the Group's 1H FY19/20 revenue, focuses on providing cost-efficient manufacturing services to notable brand owners around the world. During the Period, segmental revenue for the CMS business maintained at last year's level despite macro-economic uncertainty. Segmental profit margin of the Period (4.1%) is 0.9%pt higher than that of the corresponding period in 2018 (3.2%) contributed by cost reduction initiatives.

Outlook

With an increasingly strong foundation in IoT application across multiple industry segments and channels, there is huge business potential ahead of us for wider scope of IoT solution application leveraging our expertise in IoT technology, connectivity, as well as cloud and data analytics to enhance overall device efficiency and user experience in various dimensions.

Furthermore, the Group is driving enhancement in manufacturing capability and efficiency alongside geographic diversification of manufacturing solution which in turn open additional opportunities of new business acquisition.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2019, the Group maintained a balance of cash and cash equivalents of HK$369,652,000, which included cash and bank balance of HK$60,809,000 denominated in RMB. The remaining balance was mainly denominated in United States dollars ("**US dollars**"), Hong Kong dollars or Euro. Overall, the Group maintained a robust current ratio of 1.8 times.

As at 30 September 2019, total interest-bearing bank borrowings were HK$145,860,000, comprising primarily bank import loans repayable within one year. The majority of these borrowings were denominated either in US dollars or Hong Kong dollars and the interest rates applied were primarily subject to floating rate terms.

As at 30 September 2019, total equity attributable to owners of the Company amounted to HK$1,231,870,000. The Group had a net cash balance of HK$223,792,000, representing total cash and cash equivalents less total interest-bearing bank borrowings.

Treasury Policies

The Group is exposed to foreign exchange risk through sales and purchase that are denominated in currencies other than the functional currency of the operations to which they relate. The currencies involved are primarily US dollars, Euro, GBP and RMB. The Group closely monitors its overall foreign exchange exposure from time to time and will adopt a proactive but prudent approach to minimise the relevant exposures.

Capital Expenditures and Commitments

During the Period, the Group incurred total capital expenditures of approximately HK$84,385,000 for additions to property, plant and equipment as well as for deferred expenditures associated with the development of new products.

As at 30 September 2019, the Group had capital commitments contracted but not provided for at an amount of HK$15,950,000 mainly for the acquisition of leasehold improvements, plant and machinery.

Contingent Liabilities

As at 30 September 2019, the Group did not have any significant contingent liabilities.

Charges on Assets

As at 30 September 2019, no bank deposits and other assets have been pledged to secure the Group's banking facilities.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Save as disclosed above, the Group had no material acquisition or disposal of subsidiaries, associated companies or joint ventures during the Period.

Employee Information

As at 30 September 2019, the Group had a total of approximately 4,800 full-time employees. Total staff costs for the Period amounted to HK$326,022,000. Salaries and wages are generally reviewed on an annual basis in accordance with individual qualifications and performance, the Group's results and market conditions. The Group provides year-end double pay, discretionary bonus, medical insurance, provident fund, educational subsidy and training to its employees. The Company currently has a share option scheme (which was adopted on 14 September 2016 due to the expiry of the old share option scheme on 15 September 2016) under which the Company can grant options to, inter alia, employees of the Group to subscribe for shares of the Company with a view to rewarding those who have contributed to the Group and encouraging employees to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Up to the date of this announcement, 30,800,000 share options remained outstanding under the share option schemes.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2019 (2018: Nil).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management efficiency of the Company as well as preserving the interests of the shareholders of the Company as a whole. The Board is of the view that the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the Period.

CODE OF CONDUCT FOR DIRECTORS’ AND EMPLOYEES’ SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding dealings in the securities of the Company by the directors, senior personnel and certain employees of the Group (who are likely to be in possession of unpublished inside information relating to the Company or its securities) (the “**Own Code**”) on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the Company’s directors, all the directors confirmed that they have complied with the required standards set out in the Model Code and the Own Code throughout the Period.

In addition, no incident of non-compliance of the Own Code by the employees of the Group was noted by the Company throughout the Period.

AUDIT COMMITTEE

The Audit Committee of the Company, which comprises three Independent Non-executive Directors of the Company, namely, Mr. LUK Koon Hoo (Chairman of the Audit Committee), Mr. Patrick Thomas SIEWERT and Mr. CHEUNG Ching Leung, David, and two Non-executive Directors of the Company, namely, Mr. KAM Chi Chiu, Anthony and Mr. Arvind Amratlal PATEL, has reviewed with the senior management of the Group the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of these interim results.

Messrs. Ernst & Young, the Company’s external auditor, has been engaged by the Company to conduct certain procedures on the Group’s interim condensed consolidated financial statements for the Period in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the HKICPA. The Audit Committee of the Company discussed with Messrs. Ernst & Young the findings of these procedures including consistency of accounting policies adopted by the Group in preparing this interim financial information and the relevant disclosures made in accordance with the requirements of HKAS 34 and Appendix 16 to the Listing Rules.

PUBLICATION OF FURTHER INFORMATION

The interim report of the Company for the Period, containing the information required by the Listing Rules, will be despatched to the shareholders of the Company as well as published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.computime.com) in due course.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our management and staff for their dedication and contribution to the Group throughout the Period.

By Order of the Board
Computime Group Limited
AUYANG Ho
Chairman

Hong Kong, 21 November 2019

As at the date of this announcement, the Board comprises the following directors:

Executive directors
Mr. AUYANG Ho *(Chairman)*
Dr. OWYANG King *(Chief Executive Officer)*

Non-executive directors
Mr. KAM Chi Chiu, Anthony
Mr. Arvind Amratlal PATEL
Mr. WONG Chun Kong
Mr. AU Hing Lun, Dennis

Independent non-executive directors
Mr. LUK Koon Hoo
Mr. Patrick Thomas SIEWERT
Mr. CHEUNG Ching Leung, David

* *For identification purposes only*