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CONFIDENCE INTELLIGENCE HOLDINGS LIMITED
信 懇 智 能 控 股 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1967)

**ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

The board (the “**Board**”) of directors (“**Directors**”) of Confidence Intelligence Holdings Limited (the “**Company**”) announce the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 (the “**Interim Period**”), together with the comparative figures for the six months ended 30 June 2019.

	Unaudited six months ended 30 June	
	2020	2019
Revenue (<i>RMB'000</i>)	103,941	129,298
Gross profit (<i>RMB'000</i>)	20,765	44,807
Gross profit margin (%)	20.0	34.7
Profit for the period attributable to equity holders of the Company (<i>RMB'000</i>)	3,132	12,655
Earnings per share attributable to equity holders of the Company		
– Basic and diluted (<i>RMB cents</i>)	1.25	6.86

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Unaudited	
		six months ended 30 June	
		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	103,941	129,298
Cost of sales	5	(83,176)	(84,491)
Gross profit		20,765	44,807
Other income	6	2,569	1,749
Other (losses)/gains, net	7	(2,694)	36
Selling and distribution expenses	5	(842)	(863)
Administrative expenses	5	(16,070)	(28,791)
Net impairment losses on financial assets	5	(79)	–
Operating profit		3,649	16,938
Finance costs, net		(24)	(869)
Profit before income tax		3,625	16,069
Income tax expense	8	(493)	(3,414)
Profit for the period attributable to equity holders of the Company		3,132	12,655
Earnings per share attributable to equity holders of the Company			
Basic and diluted (<i>RMB cents</i>)	9	1.25	6.86

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited	
	six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit for the period	3,132	12,655
Other comprehensive income:		
<i>Item that will not be reclassified to profit or loss</i>		
Currency translation differences	1,914	(235)
<i>Item that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<u>12</u>	<u>(10)</u>
Total comprehensive income for the period attributable to equity holders of the Company	<u>5,058</u>	<u>12,410</u>

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2020

		Unaudited	Audited
		30 June	31 December
		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		114,939	120,262
Investment in an associate		–	–
Prepayments and deposits	11	2,416	1,168
Deferred tax assets		1,346	725
		118,701	122,155
Current assets			
Inventories		20,819	24,239
Contract assets	12	6,080	38,545
Trade receivables	12	54,031	26,610
Prepayments, deposits and other receivables	11	1,573	3,733
Financial assets at fair value through profit or loss		1	–
Cash and cash equivalents		133,897	139,172
		216,401	232,299
Total assets		335,102	354,454
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		2,250	2,250
Share premium		98,676	98,676
Retained earnings		51,703	49,217
Reserves		131,102	128,530
Total equity		283,731	278,673

		Unaudited	Audited
		30 June	31 December
		2020	2019
<i>Note</i>		RMB'000	RMB'000
LIABILITIES			
Non-Current liabilities			
Bank and other borrowings		–	1,600
Lease liabilities		2,738	4,783
Deferred government grants		10,367	10,519
		<u>13,105</u>	<u>16,902</u>
Current liabilities			
Trade payables	13	9,506	16,192
Other payables and accruals	14	15,548	25,161
Lease liabilities		4,004	3,848
Contract liabilities	14	510	462
Current income tax liabilities		2,383	3,707
Deferred government grants		2,939	2,905
Bank and other borrowings		3,376	6,604
		<u>38,266</u>	<u>58,879</u>
Total liabilities		<u>51,371</u>	<u>75,781</u>
Total equity and liabilities		<u>335,102</u>	<u>354,454</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

Confidence Intelligence Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 7 December 2018 as an exempted company with limited liability under the Companies Law Cap. 22, Law 3 of 1961 as consolidated and revised of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in the provision of electronic manufacturing service. The ultimate holding company of the Company is Skyflying Company Limited (“**Skyflying Company**”), a company incorporated in the British Virgin Islands (“**BVI**”). The ultimate controlling party of the Group is Mr. Li Hao (“**Mr. Li**”).

These condensed consolidated interim financial information (“**Interim Financial Information**”) is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (“**RMB’000**”), unless otherwise stated.

This Interim Financial Information has not been audited.

2. BASIS OF PRESENTATION

This Interim Financial Information for the six months ended 30 June 2020 has 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**”). This Interim Financial Information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this Interim Financial Information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2019, as described in those annual consolidated financial statements, except for the estimation of income tax and the adoption of new and amended standards. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

3.2 Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

4. REVENUE AND SEGMENT INFORMATION

The Company is an investment holding company and the Group is principally engaged in the business of electronics manufacturing services (“EMS”).

The chief operating decision-maker has been identified as the Directors of the Company. The Directors review the Group’s internal reporting in order to assess performance and allocate resources. The Directors have determined the operating segment based on these reports.

The Directors consider the Group’s operation from a business perspective and determine that the Group has one reportable operating segment being the EMS.

The Directors assess the performance of the operating segment based on a measure of revenue and gross profit.

During the six months ended 30 June 2020 and 2019, all the Group’s revenues are from contracts with customers and are recognised over time.

(a) Segment revenue by customers’ geographical location

The Group is domiciled in the People’s Republic of China (the “PRC”). The Group’s revenue by geographical location, which is determined by the location of customers, is as follows:

	Unaudited	
	six months ended 30 June	
	2020	2019
	RMB’000	RMB’000
The PRC	103,919	129,254
The United States of America (the “USA”)	22	44
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	103,941	129,298
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(b) Non-current assets by geographical location

As at 30 June 2020 and 31 December 2019, all of the Group’s non-current assets were located in the PRC.

5. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and net impairment losses on financial assets are analysed as follows:

	Unaudited	
	six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of raw materials and consumables used	38,917	38,133
Subcontracting charges	3,094	335
Employee benefit expenses and manpower service expenses, including Directors' emoluments	27,807	34,986
Rental expenses of short-term leases in respect of:		
– machineries	8,079	9,317
– offices, warehouses, production plant and staff quarters	454	148
Utilities	2,138	2,019
Depreciation	11,926	9,702
Auditor's remuneration		
– Audit services (excluding listing expenses)	533	551
Listing expenses	–	11,156
Professional fees	1,704	4,051
Provision for inventories	605	–
Provision for trade receivables	79	–
Other tax and surcharges	1,012	1,123
Transportation	234	245
Travelling expenses	300	494
Others	3,285	1,885
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Total cost of sales, selling and distribution expenses, administrative expenses and net impairment losses on financial assets	100,167	114,145
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6. OTHER INCOME

	Unaudited six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Government grants	2,569	1,691
Equipment rental income	—	58
	<u>2,569</u>	<u>1,749</u>

7. OTHER (LOSSES)/GAINS, NET

	Unaudited six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Loss on disposal of properties, plant and equipment	(2,665)	(575)
Exchange differences	(525)	611
Fair value gain on revaluation of financial assets at fair value through profit or loss	496	—
	<u>(2,694)</u>	<u>36</u>

8. INCOME TAX EXPENSE

Subsidiaries in the PRC are subject to corporate income tax (“CIT”) in accordance with the PRC CIT Law. According to the PRC CIT Law and the relevant regulations, the CIT tax rate applicable is 25% unless preferential rates are applicable in the cities where the subsidiaries are located.

If a subsidiary in the PRC is subject to CIT and qualified as High and New Technology Enterprise, the applicable CIT tax rate is 15%.

During the six months ended 30 June 2020 and 2019, Shenzhen Confidence Intelligence Electronic Co., Ltd, the Group’s subsidiary in the PRC has qualified for high and new technology enterprise status and is therefore subject to PRC corporate income tax (“CIT”) at a preferential income tax rate of 15%.

During the six months ended 30 June 2020 and 2019, no provision for Hong Kong profits tax has been made in the Interim Financial Information as the Group had no assessable profit in Hong Kong.

	Unaudited	
	six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC Corporate income tax (“CIT”)	1,114	3,410
Deferred income tax	(621)	4
	<hr/>	<hr/>
Income tax expense	493	3,414
	<hr/>	<hr/>

9. EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2020 and 2019. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the capitalisation of shares which took place on 20 September 2019.

	Unaudited	
	six months ended 30 June	
	2020	2019
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	3,132	12,655
Weighted average number of ordinary shares in issue (<i>thousands of shares</i>)	250,000	184,526
Basic and diluted earnings per share (<i>RMB cents</i>)	1.25	6.86
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There were no differences between the basic and diluted earnings per share as there were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2020 and 2019.

10. DIVIDENDS

No dividend has been paid or declared by the Company during the six months ended 30 June 2020 and 2019.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Current portion		
Prepayments	1,224	2,010
Rental and other deposits (<i>Note</i>)	344	1,718
Other receivables (<i>Note</i>)	5	5
	<u>1,573</u>	<u>3,733</u>
Non-current portion		
Prepayments for the acquisition of properties, plant and equipment	1,606	413
Rental deposits	810	755
	<u>2,416</u>	<u>1,168</u>
	<u>3,989</u>	<u>4,901</u>

Note: As at 30 June 2020 and 31 December 2019, the carrying amounts of deposits and other receivables approximated their fair values.

12. CONTRACT ASSETS AND TRADE RECEIVABLES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Contract assets	<u>6,080</u>	<u>38,545</u>
Trade receivables	54,146	27,605
Less: Provision for impairment of trade receivables	<u>(115)</u>	<u>(995)</u>
Trade receivables	<u>54,031</u>	<u>26,610</u>
Contract assets and trade receivables	<u>60,111</u>	<u>65,155</u>

Contract assets represent the Group's rights to consideration for work completed but unbilled for its services. The contract assets are transferred to trade receivables when the rights become unconditional which generally takes one to three months. The balances of contract assets as at 30 June 2020 and 31 December 2019 represented the amounts of services that were completed but unbilled before the period/year-end.

As at 30 June 2020 and 31 December 2019, the carrying amounts of contract assets and trade receivables approximated their fair values.

The Group's sales are on credit terms primarily from 30 to 90 days.

As at 30 June 2020 and 31 December 2019, the aging analysis of trade receivables, based on invoice date, was as follows:

	Unaudited 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
1 to 3 months	41,299	25,679
Over 3 months	12,732	931
	<u>54,031</u>	<u>26,610</u>

13. TRADE PAYABLES

	Unaudited 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
Trade payables	<u>9,506</u>	<u>16,192</u>

As at 30 June 2020 and 31 December 2019, the aging analysis of trade payables, based on invoice date, was as follows:

	Unaudited 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
Within 1 month	7,694	13,446
1 to 2 months	1,499	1,366
2 to 3 months	313	669
Over 3 months	–	711
	<u>9,506</u>	<u>16,192</u>

As at 30 June 2020 and 31 December 2019, the carrying amounts of trade payables approximated their fair values.

14. CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Payable for operating expenses	3,252	3,892
Payable for acquisition of properties, plant and equipment	1,507	54
Other tax payables	4,578	6,007
Other payables	798	811
Accruals	5,413	14,397
Contract liabilities	<u>510</u>	<u>462</u>
	<u>16,058</u>	<u>25,623</u>

As at 30 June 2020 and 31 December 2019, the carrying amounts of contract liabilities, other payables and accruals approximated their fair values.

BUSINESS REVIEW AND PROSPECTS

Business Review

The Group is an electronic manufacturing services (the “**EMS**”) provider offering comprehensive assembling and production services of Printed Circuit Board Assembly (the “**PCBAs**”) in the PRC that integrate research and design, selection and procurement of raw materials, assembling of PCBAs, quality control, testing, logistics and aftersales services. The Company’s shares (the “**Shares**”) have been successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 18 October 2019 (the “**Listing Date**”) (the “**Listing**”).

During the Interim Period, the outbreak and the spread of the coronavirus disease (COVID-19) (the “**Novel Coronavirus Outbreak**”) throughout the world has imposed different degrees of impact on various industries. Since the Novel Coronavirus Outbreak, a number of provinces and municipalities in the PRC have taken emergency public health measures and various actions to prevent the spread of the coronavirus disease (COVID-19), including imposing restriction on the resumption of operation of production plants after the statutory holidays for Chinese New Year. The Group has suspended the operation of the Group’s production plant in Shenzhen after the statutory holidays for Chinese New Year and gradually resume its operation starting from the end of February. Thus, production capacity decreased in the first quarter as a result of the Novel Coronavirus Outbreak. With the spread of the coronavirus disease (COVID-19) throughout the world and lockdown measures imposed by many countries, business and economic environment in China and the world became worse, which also has an adverse impact on the Group’s business in the Interim Period.

As a result, the Group’s revenue decreased by approximately 19.6% from approximately RMB129.3 million for the six months ended 30 June 2019 to approximately RMB103.9 million for the Interim Period. The Group’s net profit decreased by approximately 86.8% to approximately RMB3.1 million as compared with the Group’s profit (which excludes the listing expenses amounting to approximately RMB11.2 million) of approximately RMB23.8 million for the corresponding period in 2019.

Prospects

Looking forward, the economy environment in China and the world remains uncertain and challenging. The Group is taking proactive measures and making active responses in an effort to sustain the business and actively diversify or expand our customer base and product base to broaden the sources of revenue and diversify business risk. The Group will keep more cautious on its spending and expansion to reduce finance risk. Also, the Group will continue to invest in our development of in-house capabilities and keep ourselves abreast of the development of latest technology advancement in our industries to secure more business opportunities. We will continue to strive a balance among the interests of shareholders, employees and customers, and pursue long-term and sustainable development for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Segment revenue by customers' geographical location

The Group is domiciled in the People's Republic of China (the "PRC"). The Group's revenue by geographical location, which is determined by the location of customers, is as follows:

	Unaudited	
	six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
The PRC	103,919	129,254
The United States of America (the "USA")	22	44
	103,941	129,298

Revenue by Product Type

Based on the usage of the electronic products which incorporated with our PCBAs, our PCBAs can be broadly applied to electronic end products for three product categories, namely, telecommunication devices, Industrial-use devices and IoT products. The table below summarises the amount of revenue generated and as a percentage of total revenue from each product category for the Interim Period and the corresponding period in 2019 respectively:

	Revenue for the			% of total revenue for the		
	six months ended 30 June			six months ended 30 June		
	2020	2019	Change	2020	2019	Change
	RMB'000	RMB'000	%			%
PCBAs for						
telecommunication devices	57,395	68,016	(15.6)	55.2	52.6	2.6
Industrial-use devices	7,768	17,797	(56.4)	7.5	13.8	(6.3)
IoT products	38,331	42,487	(9.8)	36.9	32.9	4.0
Others (<i>Note</i>)	447	998	(55.2)	0.4	0.7	(0.3)
Total	103,941	129,298	(19.6)	100.0	100.0	–

Note: Others mainly include (i) PCBAs for automotive related devices; and (ii) the revenue generated from the sale of auxiliary and other materials

Our revenue generated from sales of PCBAs for telecommunication devices decreased by approximately 15.6% from approximately RMB68.0 million for the six months ended 30 June 2019 to approximately RMB57.4 million for the Interim Period, primarily due to that orders from our major customers who was principle in production and sale of smartphone, cordless phone decreased as a results of the deteriorated consumer market caused by the Novel Coronavirus Outbreak and fierce competition from other brands.

Our revenue generated from sales of PCBAs for industrial-use devices decreased by approximately 56.4% from approximately RMB17.8 million for the six months ended 30 June 2019 to approximately RMB7.8 million for the Interim Period, primarily due to the decreased orders as a result of the lockdown measures imposed by many countries to prevent the spread of the novel coronavirus disease (COVID-19) throughout the world as some of the end customers of industrial-use devices were oversea customers.

Our Group recorded a decrease in revenue derived from sales of PCBAs for IoT products decreased by approximately 9.8% from approximately RMB42.5 million for the for the six months ended 30 June 2019 to approximately RMB38.3 million for the Interim Period, which was mainly attributable to the net effect of: (i) revenue decreased due to the lockdown measures imposed by many countries as a result of the spread of the novel coronavirus disease (COVID-19) throughout the world as some of the end customers of IoT products were oversea customers; (ii) the Group received more orders from customers that have lower gross profit margins to enhance the Group's production utilisation rate.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the Interim Period was approximately RMB20.8 million, representing a decrease of approximately RMB24.0 million or 53.7% as compared with approximately RMB44.8 million for the corresponding period in 2019. Overall gross profit margin decreased from 34.7% for the corresponding period in 2019 to 20.0% for the Interim Period.

	Gross profit for the six months ended 30 June			Gross profit margin for the six months ended 30 June		
	2020 RMB'000	2019 RMB'000	Change (%)	2020	2019	Change (%)
PCBAs for						
telecommunication devices	12,470	24,821	(49.8)	21.7	36.5	(14.8)
Industrial-use devices	1,550	5,696	(72.8)	20.0	32.0	(12.0)
IoT products	6,617	13,966	(52.6)	17.3	32.9	(15.6)
Others	128	324	(60.5)	28.6	32.5	(3.9)
Total	<u>20,765</u>	<u>44,807</u>	<u>(53.7)</u>	<u>20.0</u>	<u>34.7</u>	<u>(14.7)</u>

PCBAs

The gross profit for PCBAs for telecommunication devices decreased by approximately 49.8% to approximately RMB12.5 million for the Interim Period (six months ended 30 June 2019: approximately RMB24.8 million). The gross profit margin decreased to approximately 21.7% for the Interim Period (six months ended 30 June 2019: approximately 36.5%), which primarily due to the decreased orders from the Group's major customers who was principle engaged in the production and sale of smartphone, cordless phone while certain costs remained fixed.

The gross profit for PCBAs for industrial-use devices decreased by approximately 72.8% to approximately RMB1.6 million for the Interim Period (six months ended 30 June 2019: approximately RMB5.7 million). The gross profit margin decreased to approximately 20.0% for the Interim Period (six months ended 30 June 2019: approximately 32.0%), which was mainly due to decreases orders from customers who targeted oversea markets as a result of the lockdown measures imposed by many countries to prevent the spread of the novel coronavirus disease (COVID-19).

The gross profit for PCBAs for IoT products decreased by approximately 52.6% to approximately RMB6.6 million for the Interim Period (six months ended 30 June 2019: approximately RMB14.0 million). The gross profit margin decreased to approximately 17.3% for the Interim Period (six months ended 30 June 2019: approximately 32.9%), which primarily due to that the Group received more orders from customers that have lower gross profit margins while orders from existing customers with higher gross profit margins decreased significantly as a result of the Novel Coronavirus Outbreak.

Other Income

Other income of the Group for the Interim Period of approximately RMB2.6 million (six months ended 30 June 2019: approximately RMB1.7 million) mainly represented government grants received by the Group.

Other (losses)/gains, net

Net other losses of approximately RMB2.7 million for the Interim Period (six months ended 30 June 2019: net gains of approximately 0.04 million) mainly represented the loss on disposal of properties, plant and equipment, exchange differences and fair value gain on revaluation of financial assets at fair value through profit or loss. The increase in the losses was mainly due to that the Group has disposed some idle and outdated equipment in the Interim Period.

Selling and Distribution Expenses

Selling and distribution expenses mainly comprised (i) relevant employee benefit expenses; (ii) transportation costs; (iii) depreciation; and (iv) entertainment expenses and other expenses. For the Interim Period, selling and distribution expenses amounted to approximately RMB0.8 million (six months ended 30 June 2019: approximately RMB0.9 million), which was stable as compared to that for the six months ended 30 June 2019. Selling and distribution expense ratio remained stable at approximately 0.8% and 0.7% against revenue for the Interim Period and the six months ended 30 June 2019, respectively.

Administrative Expenses

Administrative expenses mainly represented (i) employment benefit expenses, (ii) depreciation, (iii) listing expenses and professional fee, (iv) rental expenses, (v) travelling expenses, (vi) utilities, (vii) telecommunication and office expenses and other expenses. For the Interim Period, administrative expenses amounted to approximately RMB16.1 million (six months ended 30 June 2019: approximately RMB28.8 million), representing a decrease of approximately 44.2% as compared to the six months ended 30 June 2019. The decrease was mainly due to listing expenses and professional fees incurred for the Listing of the Company in October 2019.

Finance Costs, Net

Our finance costs mainly comprised interest expenses on bank and other borrowings and leases, while our finance income mainly represented interest income on our cash and cash equivalents. For the Interim Period, the net finance costs of the Group were approximately RMB0.02 million (six months ended 30 June 2019: approximately RMB0.9 million). The decrease in net finance costs was mainly due to the decreased average borrowing balances from approximately RMB19.8 million for the six months ended 30 June 2019 to approximately RMB5.8 million for the Interim Period.

Income Tax Expense

Income tax expense decreased by approximately 85.5% from approximately RMB3.4 million for the six months ended 30 June 2019 to approximately RMB0.5 million for the Interim Period, primarily due to the decrease in profit before income tax of the Group's major subsidiary, Shenzhen Confidence. Shenzhen Confidence, our Group's subsidiary in the PRC, has qualified for new/hightech technology enterprises status and is therefore subject to a preferential income tax rate of 15%. Our effective tax rate, which is calculated based on income tax expenses divided by profit before income tax, was approximately 12.9% for the Interim Period (six months ended 30 June 2019: approximately 21.3%). The higher effective tax rate for the six months ended 30 June 2019 was mainly resulted from the non-tax deductible listing expenses and professional fees incurred for the Listing of the Company in October 2019.

Profit Attributable to Owners of the Company

As a result of the facts discussed above, profit attributable to equity holders of the Company decreased by approximately 75.3% from approximately RMB12.7 million for the six months ended 30 June 2019 to approximately RMB3.1 million for the Interim Period.

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB178.1 million as at 30 June 2020 (31 December 2019: approximately RMB173.4 million). The current ratio of the Group increased from approximately 3.9 as at 31 December 2019 to 5.7 as at 30 June 2020.

Borrowing and the Pledge of Assets

The bank and other borrowings of the Group amounted to approximately RMB3.4 million as at 30 June 2020 (31 December 2019: approximately RMB8.2 million). As at 30 June 2020 and 31 December 2019, the borrowings were secured by properties, plant and equipment and guarantee from the Company.

Gearing Ratio

Our gearing ratio, which is calculated by total borrowings divided by total equity, was approximately 1.2% and 2.9% as at 30 June 2020 and 31 December 2019, respectively. During the Interim Period, our bank and other borrowings decreased by approximately RMB4.8 million. The gearing remained low due to our low level of bank and other borrowings as well as the increase in our equity contributed by our profitable operations.

Capital Structure

The Shares were listed on the Stock Exchange on 18 October 2019. There has been no change in the capital structure of the Company since then. As at 30 June 2020, the number of issued shares of the Company was 250,000,000 ordinary shares of HK\$0.01 each.

Foreign Exchange Exposure and Exchange Rate Risk

The Group's assets, liabilities and transactions are mainly denominated in Renminbi (“**RMB**”) and Hong Kong dollar (“**HK\$**”) and United States dollar (“**USD**”), and there are no significant assets and liabilities denominated in other currencies. Management considers that the Group is not exposed to any significant foreign exchange risk for the six months ended 30 June 2020 and 2019 as there are no significant financial assets or liabilities of the Group denominated in the currencies other than the respective functional currencies of the Group's entities.

Capital Expenditure

For the Interim Period, the Group had capital expenditure of approximately RMB9.7 million (six months ended 30 June 2019: approximately RMB3.9 million). The capital expenditure was mainly related to the additions of office equipment, plant and equipment.

Interim Dividend

The Board does not recommend payment of interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

Employees and Emoluments Policy and Training

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, bonuses and the Group's contribution to mandatory provident funds or state-managed retirement benefits scheme. Other benefits include share options to be granted under the Share Option Schemes. The Group provides comprehensive training and development opportunities to its employees on a regular basis. The trainings are arranged according to needs to employees, which are identified annually by individual departments.

As at 30 June 2020, the Group had 776 employees with a total remuneration of approximately RMB27.4 million during the Interim Period (six months ended 30 June 2019: approximately RMB35.0 million). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

Use of Proceeds

Our business objectives and planned use of proceeds as stated in the Prospectus of the Company dated 28 September 2019 (the “**Prospectus**”) were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus. The actual use of proceeds was based on the actual market development. The net proceeds from the Share Offer received by the Company, after deducting related underwriting fees and estimated expenses payable by the Company in connection with the Share Offer were approximately HK\$91.9 million. From the Listing Date, being the date on which dealings in the Shares first commenced in the Stock Exchange, to 30 June 2020, the net proceeds from the Share Offer had been applied as follows:

Business objectives as stated in the prospectus	Actual net proceeds (HK\$'000)	Amount utilised up to 30 June 2020 (HK\$'000)	Remaining balance as at 30 June 2020 (HK\$'000)	Expected timeline for the unutilised net proceeds to be utilised	
				For the year ending 31 December 2020 (HK\$'000)	For the year ending 31 December 2021 (HK\$'000)
Enhance our production capacity and efficiency	49.9	21.2	28.7	–	28.7
Enhance the level of automation in our quality control and packaging system	7.6	7.6	–	–	–
Strengthen our product design and enhancement capabilities in respect of our PCBAs applicable to telecommunication devices and IoT devices	5.9	0.2	5.7	1.4	4.3
Further strengthen our research and development capabilities	3.1	1.4	1.7	0.7	1.0
Strengthen our product testing capabilities for IoT products by setting up a cloud-based simulation platform	2.1	0.7	1.4	0.7	0.7
Upgrade our MES system and enhance our capabilities in information technology	3.1	1.3	1.8	0.7	1.1
Upgrade our existing intelligent warehouse	2.5	0.4	2.1	0.6	1.5
Repayment of bank loan and other borrowings	8.6	6.2	2.4	2.4	–
Working capital	9.1	4.0	5.1	2.0	3.1
	<u>91.9</u>	<u>43.0</u>	<u>48.9</u>	<u>8.5</u>	<u>40.4</u>

The expected timeline for utilising the unutilised net proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions. The proceeds used for enhancement our production capacity and efficiency and strengthening our product design and enhancement capabilities in respect of our PCBAs applicable to telecommunication devices and IoT devices are expected to be postponed as the Group keep more cautious on spending and expansion under current uncertain and deteriorated economic environment and the unsatisfied interim results of the Group for the Interim Period.

The unutilised net proceeds have been placed with licensed banks in Hong Kong and PRC as interest-bearing deposits in accordance with the intention of the Board as disclosed in the Prospectus.

Capital Commitment

As at 30 June 2020, the Group's capital commitment amounted to approximately RMB2.7 million (31 December 2019: approximately RMB2.2 million). The capital commitment was mainly related to the acquisition of machinery and equipment to expand our production capacity and enhance our production efficiency.

Material Acquisitions, Disposals of Subsidiaries, Associates and Joint Ventures and Significant Investment

During the Interim Period, there were no material acquisition, disposal of subsidiaries, associates and joint ventures or significant investment by the Group.

Contingent Liabilities

The Group did not have any contingent liabilities as of 30 June 2020 (31 December 2019: nil).

Subsequent Event After the Interim Period

There were no significant events after the Interim Period up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the trust of shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance codes to meet the legal and commercial standards by focusing on areas such as internal control, adequate disclosure and accountability to all shareholders.

The Company has adopted and complied with the code provisions set out in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules during the Interim Period except the following deviation:

CG Code provision A.2.1 stipulates that the roles of chairman of the Board and chief executive should be separate and should not be performed by the same individual. Mr. Li is the chairman of the Board and the chief executive officer of our Group, which was deviated from the CG Code. However, having considered the nature and extent of our Group’s operations, Mr. Li’s extensive experience in the industry, familiarity with the operations of our Group since its business operation, that all major decisions are made in consultation with members of our Board and relevant Board committees, and that there are three independent non-executive Directors on our Board offering independent perspectives, our Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers and authorities between our Board and the management of our Company and that it is in the best interest of our Group to have Mr. Li taking up both roles. As such, the roles of the chairman and chief executive officer of our Group are not being separated pursuant to the requirement under code provision A.2.1 of the CG Code. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

SHARE OPTION SCHEME

A share option scheme was conditionally adopted on 20 September 2019 (the “**Share Option Scheme**”), which became effective on the Listing Date. The Share Option Scheme is a share incentive scheme and is established to recognise and motivate the contributions that the eligible participants had or may have made to the Group.

The Board may, at its absolute discretion, grant options to any employee (full-time or part-time), consultant or adviser of our Group, Directors, shareholder of our Group, or any supplier, customer, business partner or service provider of our Group (together, the “**Eligible Participants**” or each “**Eligible Participant**”).

Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (i.e. 25,000,000 shares) unless approved by the shareholders of the Company. The 10% limited may be renewed by the shareholders of the Company in general meeting from time to time provided always that the 10% limited so renewed must not exceed 10% of the shares in issue at the date of approval of such renewal by the shareholders of the Company.

No option shall be granted to any Eligible Participants which, if exercised in full would result in the total number of the shares issued and to be issued upon exercise of the options already granted or to be granted to such Eligible Participant under the Share Option Scheme (including exercised, cancelled, and outstanding share options) in any 12-month period up to and including the date of such grant exceeding 10% in aggregate of the shares in issue as at the date of such grant.

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption.

No share option has been granted under the Share Option Scheme up to the date of this announcement.

CONNECTED TRANSACTIONS

During the six months ended 30 June 2020, there were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Rules Governing the Listing of securities on the Stock Exchange (the “**Listing Rules**”) which are required to comply with any of the reporting, announcement or independent shareholders’ approval requirements under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDITOR

PricewaterhouseCoopers, the auditor of the Company, has reviewed the unaudited condensed consolidated interim financial information of the Group for the Interim Period in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

AUDIT COMMITTEE

The Company established the Audit Committee on 20 September 2019 with terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules for the purpose of to making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the internal control procedures of our Group. The Audit Committee now comprises three members, all being independent non-executive Directors, namely, Mr. Wong Chun Sek Edmund (Chairman), Mr. Chen Zhong and Mr. Wu Tai Cheung.

The Audit Committee had reviewed the interim results of the Group for the six months ended 30 June 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All Directors of the Company have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the Interim Period and up to the date of the announcement.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.szxinken.com>). The interim report of the Company for the six months ended 30 June 2020 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Confidence Intelligence Holdings Limited
Li Hao
Chairman & Executive Director

Hong Kong, 14 August 2020

As at the date of this announcement, the executive Directors are Mr. Li Hao, Mr. Zhang Bizhong and Mr. Xu Shizhen, the non-executive Director is Mr. Yuan Shuntang, and the independent non-executive Directors are Mr. Chen Zhong, Mr. Wong Chun Sek Edmund and Mr. Wu Tai Cheung.