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TRIO INDUSTRIAL ELECTRONICS GROUP LIMITED

致豐工業電子集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1710)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Trio Industrial Electronics Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 30 June 2021, together with comparative figures for the corresponding period in 2020 as follows:

FINANCIAL HIGHLIGHTS:

- Revenue for the six months ended 30 June 2021 increased by 15.4% to HK\$325.4 million as compared with the corresponding period in 2020.
- Gross profit for the six months ended 30 June 2021 decreased by 0.4% to HK\$66.9 million and gross profit margin reduced by 3.2 percentage points to 20.6% as compared with the corresponding period in 2020.
- Loss before income tax for the six months ended 30 June 2021 increased to HK\$8.4 million from a loss of HK\$1.9 million for the corresponding period of 2020.
- Loss attributable to owners of the Company was HK\$9.9 million for the six months ended 30 June 2021 as compared with a loss of HK\$2.4 million for the corresponding period of 2020.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: HK0.8 cent per ordinary share).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2021	2020
	Note	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	4	325,371	281,872
Cost of sales	5	<u>(258,462)</u>	<u>(214,715)</u>
Gross profit		66,909	67,157
Other income, net	4	939	1,095
Selling and distribution expenses	5	(7,272)	(5,431)
Administrative expenses	5	(66,782)	(59,062)
Other operating incomes/(expenses), net	5	<u>764</u>	<u>(2,913)</u>
(Loss)/profit from operations		(5,442)	846
Finance expenses, net	6	<u>(2,962)</u>	<u>(2,697)</u>
Loss before income tax		(8,404)	(1,851)
Income tax expense	7	<u>(1,463)</u>	<u>(516)</u>
Loss for the period		<u>(9,867)</u>	<u>(2,367)</u>
Other comprehensive (expense)/income			
<i>Items that will not be reclassified</i>			
<i>subsequently to profit or loss:</i>			
Currency translation differences		<u>(1,243)</u>	<u>147</u>
Other comprehensive (expense)/income for the period, net of tax		<u>(1,243)</u>	<u>147</u>
Total comprehensive loss for the period		<u><u>(11,110)</u></u>	<u><u>(2,220)</u></u>
Loss per share			
— Basic and diluted (HK cents)	8	<u><u>(0.99)</u></u>	<u><u>(0.24)</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
	Note		
Assets			
Non-current assets			
Property, plant and equipment		52,758	53,678
Right-of-use assets		18,587	23,200
Financial assets at fair value through profit or loss – non-current		13,804	13,854
Prepayment		1,847	1,864
		<u>86,996</u>	<u>92,596</u>
Current assets			
Inventories		215,708	132,931
Trade and other receivables	10	120,379	183,044
Prepayments and deposits		32,042	29,791
Financial assets at fair value through profit or loss – current		2,649	–
Restricted bank deposits		6,139	6,139
Bank and cash balances		84,465	99,216
		<u>461,382</u>	<u>451,121</u>
Current liabilities			
Trade and other payables	11	161,219	129,788
Contract liabilities		4,964	3,453
Borrowings	12	7,596	8,750
Lease liabilities – current		8,632	9,207
Derivative financial instruments		23	–
Current income tax liabilities		10,301	7,662
		<u>192,735</u>	<u>158,860</u>
Net current assets		<u>268,647</u>	<u>292,261</u>
Total assets less current liabilities		<u>355,643</u>	<u>384,857</u>
Non-current liabilities			
Lease liabilities – non-current		11,885	16,105
Deferred tax liabilities		2,011	3,947
		<u>13,896</u>	<u>20,052</u>
Net assets		<u>341,747</u>	<u>364,805</u>
Equity			
Share capital	13	281,507	281,507
Reserves		60,240	83,298
Total equity		<u>341,747</u>	<u>364,805</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Trio Industrial Electronics Group Limited (the “**Company**”) is a limited liability company incorporated in Hong Kong and listed (the “**Listing**”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The principal place of business and registered office of the Company is at Block J, 5/F., Phase II, Kaiser Estate, 51 Man Yue Street, Hung Hom, Kowloon, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in the manufacturing and sales of electronic products. The immediate holding company of the Company is Trio Industrial Electronics Holding Limited (“**Trio Holding**”), a company incorporated in the British Virgin Islands with limited liability.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2021 (“**Interim Financial Information**”) is presented in thousands of Hong Kong dollars (“**HK\$’000**”), unless otherwise stated.

2 BASIS OF PREPARATION

The Interim Financial Information, which does not constitute the Group’s statutory financial statements, has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and in compliance with the Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The financial information relating to the year ended 31 December 2020 that is included in the Interim Financial Information as comparative information does not constitute the Group’s statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the “**Companies Ordinance**”) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company’s auditor has reported on those consolidated financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Except as described below, the accounting policies used in the preparation of the Interim Financial Information are consistent with those set out in the annual report for the year ended 31 December 2020.

New and amended standards effective in 2021 which are relevant to the Group’s operations

The Group has adopted the following new standards and amendments to standards which are effective for the financial year beginning on or after 1 January 2021 and relevant to the Group.

HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendment)	Interest Rate Benchmark Reform – Phase 2
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The application of the above amendments in the current interim period has had no material impact on the Group’s financial position and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

The Group has not applied any new standards or interpretation that is not yet effective for the current interim period.

3 SEGMENT INFORMATION

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of the Company.

Operating segments are reported in the manner consistent with the internal reporting provided to the CODM. The Group is subject to similar business risk, and resources are allocated based on what is beneficial to the Group in enhancing the value as a whole. The Board considers the performance assessment of the Group should be based on the profit before income tax of the Group as a whole and regards the Group as a single operating segment and reviews internal reporting accordingly. Therefore, the Board considers there to be only one operating segment under the requirements of HKFRS 8 “Operating Segments”.

The Group provides manufacturing and sales of electronic products, which are carried out internationally, through the production complexes located in the People’s Republic of China (the “PRC”), Ireland and Thailand during the six months ended 30 June 2021 and 2020.

Segment assets and liabilities

No assets and liabilities are included in the Group’s segment reporting that are submitted to and reviewed by the CODM internally. Accordingly, no segment assets and liabilities are presented.

Information about major customers

External customers that each contributes over 10% of total revenue of the Group for any of the six months ended 30 June 2021 and 2020 are as follows:

	Six months ended 30 June	
	2021	2020
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Customer A	76,518	75,715
Customer B	46,244	51,958
Customer C	34,388	N/A
Customer D	N/A	29,755
Customer E	N/A	29,541

Geographical information

During the six months ended 30 June 2021, the majority of revenue was derived from customers in Europe (mainly the United Kingdom (the “UK”), Switzerland, Ireland, Denmark and Sweden), while the remaining revenue was from customers in the United States of America (the “US”), the PRC, Australia and Malaysia.

In relation to non-current assets held by the Group (primarily represented by property, plant and equipment), land and buildings with carrying values as at 30 June 2021 of HK\$21,207,000 (31 December 2020: HK\$21,700,000) are located in Hong Kong. Other property, plant and equipment are primarily located in the PRC and Thailand.

4 REVENUE AND OTHER INCOME, NET

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	325,371	281,872
Other income, net		
Commission income	136	19
Fair value (loss)/gain on financial assets at fair value through profit or loss	(366)	57
Investment income	303	–
Service income	262	–
(Loss)/gain on foreign exchange	(586)	123
Government grants	562	235
Scrap material sale income	287	196
Sundry income	341	465
	939	1,095

5 EXPENSES BY NATURE

Expenses included “cost of sales”, “selling and distribution expenses”, “administrative expenses”, and “other operating incomes/(expenses), net” are analysed as follows:

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Employee benefit expenses (including directors' emoluments)	90,959	72,457
Auditors' remuneration	1,401	1,355
Depreciation for property, plant and equipment	5,672	5,952
Depreciation for right-of-use assets	4,463	4,205
Amortisation for insurance expense	17	17
Obsolete inventories written off	326	294
Operating lease payments	221	104
Gain on derivative financial instruments	(244)	–
Loss on disposal of property, plant and equipment	6	26
(Reversal of)/provision for impairment loss on inventories	(869)	2,576

6 FINANCE EXPENSES, NET

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Finance income		
Bank interest income	35	788
Finance income	35	788
Finance expenses		
Interest on bank borrowings		
– wholly repayable within five years	(349)	(995)
Interest on lease liabilities	(269)	(433)
Other finance expenses		
Bank charges	(2,379)	(2,057)
Finance expenses	(2,997)	(3,485)
Finance expenses, net	(2,962)	(2,697)

7 INCOME TAX EXPENSE

The amount of taxation in the interim condensed consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current income tax:		
– Hong Kong	3,347	155
– Other jurisdictions	–	89
	3,347	244
Deferred tax (credit)/expense	(1,884)	272
Income tax expense	1,463	516

- (a) Under the Inland Revenue (Amendment) (No. 7) Bill 2017 two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. Hong Kong profits tax of the qualified entity is calculated in accordance with the two-tiered profits tax rates regime. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.
- (b) No provision for corporate income tax in other jurisdictions has been made as the Group has no assessable incomes in the relevant jurisdictions during the six months ended 30 June 2021. Taxation arising in other jurisdictions for the six months ended 30 June 2020 was calculated at the rates prevailing in the relevant jurisdictions.

8 LOSS PER SHARE

(a) Basic loss per share

The basic loss per share is calculated on the loss attributable to owners of the Company divided by the weighted average number of ordinary shares in issue during the six months ended 30 June 2021 and 2020.

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company (<i>HK\$'000</i>)	(9,867)	(2,367)
Weighted average number of ordinary shares in issue (<i>thousand shares</i>)	1,000,000	1,000,000
Basic loss per share (<i>HK cents</i>)	(0.99)	(0.24)

(b) Diluted loss per share

The diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Diluted loss per share is the same as basic loss per share due to the absence of dilutive potential ordinary shares for the six months ended 30 June 2021 and 2020.

9 DIVIDENDS

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Dividend recognised as distribution during the period		
Final dividend for 2020 paid of HK1.2 cents (2020: final dividend for 2019 paid of HK0.8 cent) per ordinary share	12,000	8,000
Dividend declared after the end of the interim reporting period		
Interim dividend of nil (2020: HK\$0.8 cent) per ordinary share	–	8,000

10 TRADE AND OTHER RECEIVABLES

		As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
	<i>Note</i>		
Trade receivables	(a)	115,779	184,350
Less: allowance for impairment of trade receivables		(1,839)	(1,836)
Trade receivables – net		113,940	182,514
Other receivables		6,439	530
		120,379	183,044

Under the factoring arrangement with banks, the Group has transferred certain trade receivables to the factor in exchange for cash and is prevented from selling or pledging the receivables. The Group has legally transferred all of the risks and rewards of ownership of the discounted trade receivables to the financial institutions. The carrying amounts of the trade receivables exclude receivables which are subject to a factoring arrangement.

Note:

- (a) Trade receivables were arising from trading of electronic products. The payment terms of trade receivables granted to third party customers range from full payment before shipment to 75 days from end of month. As at 30 June 2021 and 31 December 2020, the aging analysis based on invoice date of the trade receivables is as follows:

	As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
Below 30 days	48,982	103,917
Between 31 and 60 days	36,735	49,052
Over 60 days	30,062	31,381
	115,779	184,350

11 TRADE AND OTHER PAYABLES

		As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
	<i>Note</i>		
Trade payables	(a)	105,791	95,693
Trust receipts		22,241	14,211
Accruals and other payables		21,187	19,884
Final dividend payable		12,000	—
		<u>161,219</u>	<u>129,788</u>

Note:

- (a) The credit terms of trade payables granted by the vendors generally range from full payment before shipment to net 180 days. As at 30 June 2021 and 31 December 2020, the aging analysis of trade payables based on invoice date is as follows:

	As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
Below 30 days	53,701	42,161
Between 31 and 60 days	35,612	37,180
Over 60 days	16,478	16,352
	<u>105,791</u>	<u>95,693</u>

12 BORROWINGS

		As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
	<i>Note</i>		
Term loans	(a)	3,766	4,468
Insurance premium loan	(a)	3,830	4,282
		<u>7,596</u>	<u>8,750</u>

The Group's borrowings were repayable as follows (without taking into account the Repayable on Demand Clause as detailed in note (a) below):

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Within 1 year	2,353	2,327
Between 1 and 2 years	2,398	2,374
Between 2 and 5 years	2,845	4,049
	<u>7,596</u>	<u>8,750</u>

Notes:

- (a) As these loans include a clause that gives the lender the unconditional right to call the loans at any times ("**Repayment on Demand Clause**"), according to HK Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause", which requires the classification of whole term loans containing the repayment on demand clause as current liabilities, these loans were classified by the Group as current liabilities.
- (b) As at 30 June 2021 and 31 December 2020, the total borrowings pledged by certain assets and their carrying values are shown below:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Property, plant and equipment	21,207	21,700
Financial assets at fair value through profit or loss	8,919	8,816
Restricted bank deposits	6,139	6,139
	<u>36,265</u>	<u>36,655</u>

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at end of each reporting period are as follows:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Variable rates	<u>7,596</u>	<u>8,750</u>

13 SHARE CAPITAL

	As at 30 June 2021 (Unaudited)		As at 31 December 2020 (Audited)
	Number of shares	Amount HK\$'000	Number of shares
			Amount HK\$'000
Issued and fully paid			
At beginning and the end of period/year	<u>1,000,000,000</u>	<u>281,507</u>	<u>1,000,000,000</u> <u>281,507</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

While the global economy showed an early sign of recovery from the easing of coronavirus disease 2019 (“**COVID-19**”) pandemic and the worldwide rollout of vaccination programmes, the emergence of new COVID-19 variants posted another round of challenges for countries around the world in the first half of 2021. Despite the prolonged impact brought by the COVID-19 pandemic globally, the Group’s revenue increased by 15.4% to HK\$325.4 million for the six months ended 30 June 2021 benefiting from the acceleration of digital transformation and its applications. The growth trends, however, led to increasing shortage of electronic components which put huge pressures on the Group. Gross profit margin for the first half of 2021 was 20.6%, down by 3.2 percentage points compared with that of 2020. Whilst the Group has maintained long-term relationships with suppliers and obtained their full supports, material supplies remained far from promising. In view of the unstable material supplies with fluctuated prices, the Group turned to stock up raw materials to stabilise its production and order fulfilment. Rising freight and transportation charges and direct labour costs due to reduced material and labour movements aggravated the situation and resulted in the Group to report a loss of HK\$9.9 million for the six months ended 30 June 2021.

The Group’s production facilities in Ireland and Thailand had come into operation, but their production capacities were yet to be fully utilised during the period under review due to local COVID-19 control measures including lockdown in our operation areas. Even so, the order backlog of the Group reached a record high, reflecting a gradual resumption of customer orders from the pandemic. The Group had successfully bid the leasing of two factory buildings alongside the existing production base in the PRC during the first half of 2021, which will allow the Group to increase its production capacity to cater for new purchase orders once the businesses rebound from the COVID-19 pandemic.

FINANCIAL REVIEW

Revenue

The following table summarises the amount of revenue generated and as a percentage of total revenue from each product category for the six months ended 30 June 2021 and 2020, respectively:

	Six months ended 30 June			
	2021		2020	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Electro-mechanical products	158,493	48.7	123,333	43.8
Smart chargers	79,446	24.4	76,268	27.1
Switch-mode power supplies	76,392	23.5	69,926	24.8
Smart vending systems	7,743	2.4	9,714	3.4
Others ⁽¹⁾	3,297	1.0	2,631	0.9
Total	<u>325,371</u>	<u>100.0</u>	<u>281,872</u>	<u>100.0</u>

Note:

- (1) Others include automatic testing equipment (“ATE”), power switch gear boards and catering equipment control boards.

The Group recorded a 15.4% increase in revenue to HK\$325.4 million for the first half of 2021 from HK\$281.9 million for the same period of 2020. Electro-mechanical products remained a growth driver to the Group’s revenue for the first half of 2021, representing a rise of HK\$35.2 million compared with that of 2020. The increase in revenue mainly resulted from (i) strong customer demands on professional beauty and animal grooming products as well as security and access control systems; and (ii) gradual resumption of customer orders following the outbreak of COVID-19 since early 2020. Switch-mode power supplies generated a revenue of HK\$76.4 million for the first half of 2021, representing an increase of 9.2% compared with that of 2020 thanks to growing awareness of energy efficiency and acceleration of digital transformation which facilitated the demands on smart power solutions. The growth in revenue, however, was seriously affected by a general shortage of electronic components and severe disruption of global supply chains and product delivery.

The table below summarises the geographical revenue segment based on location of customers for the six months ended 30 June 2021 and 2020, respectively:

	Six months ended 30 June			
	2021		2020	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Europe ⁽¹⁾	264,028	81.1	222,811	79.0
North America ⁽²⁾	46,662	14.4	42,018	14.9
The PRC (including Hong Kong)	10,525	3.2	6,211	2.2
South-east Asia ⁽³⁾	1,449	0.5	7,354	2.6
Others ⁽⁴⁾	2,707	0.8	3,478	1.3
Total	<u>325,371</u>	<u>100.0</u>	<u>281,872</u>	<u>100.0</u>

Notes:

- (1) Europe includes Austria, Bulgaria, Denmark, France, Germany, Hungary, Ireland, Italy, the Netherlands, Poland, Serbia, Slovakia, Spain, Sweden, Switzerland and the UK.
- (2) North America includes the US.
- (3) South-east Asia includes Malaysia and Singapore.
- (4) Others include Australia, Israel and Japan.

Europe and North America continued to be the major markets of the Group which in aggregate accounted for 95.5% and 93.9% of total revenue for the six months ended 30 June 2021 and 2020, respectively. Revenue from European and North American markets for the first half of 2021 went up by 18.5% and 11.1%, respectively compared with that of 2020. The multiple waves of COVID-19 in Europe and the US have disrupted the production activities of local entities which motivated these customers to reallocate sales orders to the PRC and resulted in the increase in revenue in these regions. The Chinese market also benefited from such re-arrangement and contributed to the rise in revenue to HK\$10.5 million for the first half of 2021 from HK\$6.2 million for the same period in 2020.

Cost of sales

The Group's cost of sales mainly comprised direct materials, direct labour costs, and manufacturing overheads. Cost of sales for the six months ended 30 June 2021 went up by 20.4% to HK\$258.5 million from HK\$214.7 million for the same period in 2020. The upsurge in cost of sales reflected the combined impacts of: (i) escalating material costs arising from worldwide shortage in supply of components; (ii) increased carriage inwards and delivery lead time driven by the multiple waves of COVID-19; (iii) higher labour costs due to skilled labour shortages and re-arrangement of production schedules arising from electricity rationing and COVID-19 control measures in the PRC; and (iv) the absorption of running costs from the production facility in Thailand for the period under review.

Gross profit and gross profit margin

The Group's gross profit was HK\$66.9 million for the six months ended 30 June 2021, representing a slight decrease of 0.4% compared with that of 2020. Gross profit margin reduced by 3.2 percentage points to 20.6% for the first half of 2021 from 23.8% for the same period in 2020 since the adverse impacts on cost of sales outweighed the increased revenue rebounded from COVID-19 pandemic.

Other income, net

Other income, net was HK\$0.9 million for the first half of 2021, representing a decline of 14.3% compared with that of 2020. Such change mainly resulted from: (i) a loss of HK\$0.6 million on foreign exchange for the six months ended 30 June 2021 compared with a gain of HK\$0.1 million for the same period of 2020; and (ii) net fair value loss of HK\$0.4 million derived from the revaluation of financial assets at fair value through profit or loss. The decrease in other income, net, however, was partly offset by the receipt of government grants of HK\$0.6 million and investment incomes of HK\$0.3 million from fund investments and listed equity investments.

Selling and distribution expenses

Included in selling and distribution expenses were primarily freight, insurance and transportation charges, marketing and promotion expenses, and custom duties and declaration charges. The Group recorded a 33.9% increase in selling and distribution expenses to HK\$7.3 million for the six months ended 30 June 2021 from HK\$5.4 million for the same period of 2020. Global supply chains have been severely disrupted due to multiple waves of COVID-19, which drove up the Group's freight and transportation charges and disturbed product shipment during the period under review.

Administrative expenses

Administrative expenses went up by 13.1% from HK\$59.1 million for the first half of 2020 to HK\$66.8 million for the same period of 2021. The growth in administrative expenses mainly resulted from: (i) accelerated operating expenses driven by the appreciation of RMB against other currencies; (ii) the rise in staff salaries and allowances due to annual pay increment and additional allowances paid to the Group's staff in Hong Kong and the PRC in support of operations in Thailand; and (iii) the inclusion of operating expenses derived from the production facility in Thailand.

Other operating incomes/(expenses), net

Other operating incomes/(expenses), net reduced from expenses of HK\$2.9 million for the six months ended 30 June 2020 to incomes of HK\$0.8 million for the same period of 2021. The turnaround was mainly attributable to the reversal of provision for impairment loss on inventories amounting to HK\$0.9 million and a gain on derivative financial instruments of HK\$0.2 million during the first half of 2021.

Finance expenses, net

Finance expenses, net went up by 9.8% from HK\$2.7 million for the first half of 2020 to HK\$3.0 million for the same period of 2021. With the decrease in interest rate level in the financial market, the bank interest income received by the Group during the period under review went down by HK\$0.8 million compared with that of 2020 which cancelled out the reduction in bank interest expenses from HK\$1.0 million for the six months ended 30 June 2020 to HK\$0.3 million for the same period of 2021.

Income tax expense

There was an increase in income tax expense from HK\$0.5 million for the six months ended 30 June 2020 to HK\$1.5 million for the same period of 2021 primarily due to the rise in assessable profits from some of the group companies for the first half of 2021. The increase, however, was partially offset by the recognition of deferred tax credits of HK\$1.9 million during the period under review.

Loss for the period

The Group reported a loss of HK\$9.9 million for the six months ended 30 June 2021 from HK\$2.4 million for the same period in 2020. The loss for the period is a combination of (i) increased material costs because of prolonged shortage in supply of components; (ii) soaring freight and transportation charges derived from severe disruption of global supply chains; (iii) the rise in direct labour costs and staff salaries and allowances due to the multiple waves of COVID-19 and additional allowances paid to the Group's staff in Hong Kong and the PRC to support the operations in Thailand; (iv) overall increase in operating expenses driven by the appreciation of RMB; and (v) the absorption of running costs from the production facility in Thailand.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2021, the Group's operation and capital requirements were financed principally through a combination of cash flows generated from the operating activities, proceeds from the listing of the Company on the Main Board of the Stock Exchange on 23 November 2017 (the "**Listing**") and bank borrowings. As at 30 June 2021, the Group had net current assets of HK\$268.6 million (31 December 2020: HK\$292.3 million), including cash and bank balances (including restricted bank deposits) of HK\$90.6 million (31 December 2020: HK\$105.4 million). Cash and bank balances (including restricted bank deposits) are mainly denominated in HK\$, United States Dollars ("**US\$**"), Renminbi ("**RMB**"), Euros ("**EUR**") and Thai Bahts ("**THB**"). The Group's current ratio (as calculated by current assets divided by current liabilities) decreased from 2.8 times as at 31 December 2020 to 2.4 times as at 30 June 2021. Gearing ratio is calculated by net debt divided by total capital as at the end of reporting period. Net debt is calculated as total borrowings less cash and bank balances, while total capital is calculated as "equity" as shown in the interim condensed consolidated statement of financial position, plus net debt, where applicable. As at 30 June 2021, the gearing ratio was not applicable ("**N/A**") to the Group (31 December 2020: N/A) as the Group had sufficient working capital level from the net proceeds received from the Listing.

FINANCIAL RISK MANAGEMENT

Foreign exchange risk

The Group operates mainly in Hong Kong, the PRC, Thailand, and Ireland. Entities within the Group are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to HK\$, RMB, THB and EUR. Foreign exchange risk arises from export sales, purchases, other future commercial transactions and monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency.

The management of the Company has set up a policy to require the Group to manage its foreign exchange risk. The Group does not adopt formal hedge accounting policy. It manages its foreign currency risk by closely monitoring the movements of foreign currency rates and will consider to enter into forward foreign exchange contracts to reduce the exposure should the need arise.

During the six months ended 30 June 2021, the Group had entered into certain forward foreign exchange contracts with a bank and a gain on derivative financial instruments of HK\$0.2 million (six months ended 30 June 2020: nil) was recognised at the interim condensed consolidated statement of comprehensive income.

As at 30 June 2021, the notional principal amounts of the outstanding forward foreign exchange contracts were approximately HK\$46.6 million (31 December 2020: nil).

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group does not adopt any interest hedging strategy.

For the six months ended 30 June 2021 and 2020, all bank borrowings of the Group were arranged at floating rates varied with the then prevailing market condition.

As at 30 June 2021, the Group had bank borrowings of HK\$7.6 million (31 December 2020: HK\$8.8 million), which were primarily denominated in HK\$ and US\$.

Credit risk

The Group's credit risks are primarily attributable to financial instruments, financial assets at fair value through profits or loss, trade receivables, deposits and other receivables, time deposits and cash deposited at banks.

In respect of time deposits and cash deposited at banks, the credit risk is considered to be low as the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The management of the Company makes periodic assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the management is of the opinion that adequate provision for uncollectible receivables has been made in the consolidated financial statements.

As at 30 June 2021, the customer bases of the Group are widely dispersed despite that 18.4% (31 December 2020: 21.2%) of the trade receivables were due from the Group's largest customer and 68.6% (31 December 2020: 62.4%) were due from the five largest customers determined on the same basis.

The Group is also exposed to credit risk in relation to financial assets that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments.

Liquidity risk

Cash flow forecast is performed in the operating entities of the Group. Such forecast takes into consideration the Group's debt financing plans, covenant compliance and, if applicable, external regulatory or legal requirements – for example, currency restrictions.

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets and receivables; and long-term financing including long-term borrowings. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable the Group to continue its business in the foreseeable future.

COMMITMENTS

- (a) The Group's capital expenditure on property, plant and equipment contracted for but not yet incurred as at 30 June 2021 amounted to HK\$1.1 million (31 December 2020: HK\$1.5 million).
- (b) The Group has lease contracts that are committed but have not yet commenced as at 30 June 2021. The future lease payments for these non-cancellable lease contracts are approximately HK\$133.9 million (31 December 2020: nil).

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group during the six months ended 30 June 2021. The share capital of the Company only comprises ordinary shares.

As at 30 June 2021, the Company had 1,000,000,000 shares in issue (31 December 2020: 1,000,000,000 shares).

SIGNIFICANT INVESTMENTS

As at 30 June 2021, the Group did not hold any significant investments (31 December 2020: nil).

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not have any material acquisitions nor disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as those disclosed in the prospectus dated 13 November 2017 (the “**Prospectus**”) or otherwise in this announcement, the Group currently has no other plan for material investments and capital assets.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 30 June 2021 (31 December 2020: nil).

TREASURY MANAGEMENT

During the six months ended 30 June 2021, there had been no material change in the Group’s funding and treasury policies. The Group has a sufficient level of cash and banking facilities for the conduct of its trade in the normal course of business.

The management of the Company closely reviews the trade receivable balances and any overdue balances on an ongoing basis and only trades with creditworthy parties. The management of the Company carefully monitors the Group’s liquidity position to ensure that the liquidity structure of the Group’s assets, liabilities and commitments can meet its funding requirements to manage liquidity risk.

PLEDGE OF ASSETS

As at 30 June 2021, the financial assets at fair value through profit or loss amounted to HK\$8.9 million (31 December 2020: HK\$8.8 million), property, plant and equipment amounted to HK\$21.2 million (31 December 2020: HK\$21.7 million) and bank deposits amounted to HK\$6.1 million (31 December 2020: HK\$6.1 million) have been pledged as security for the bank borrowings of the Group.

As at 30 June 2021, no property, plant and equipment was held under finance leases (31 December 2020: nil).

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees were approximately 1,600 as at 30 June 2021 (31 December 2020: approximately 1,500). The Group's employee benefit expenses mainly included salaries, overtime payment and discretionary bonus, share options, other staff benefits and contributions to retirement schemes.

For the six months ended 30 June 2021, the Group's total employee benefit expenses (including Directors' emoluments) amounted to HK\$91.0 million (six months ended 30 June 2020: HK\$72.5 million). Remuneration is determined with reference to the qualification, experience and work performance, whereas the payment of discretionary bonus is generally subject to work performance, the financial performance of the Group in that particular year and general market conditions.

The Group operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible Directors and employees of the Group, who contribute to the success of the Group's operations. As at 30 June 2021, the Group did not have any outstanding share options granted under the Share Option Scheme (31 December 2020: nil).

COMPARISON OF BUSINESS STRATEGIES WITH ACTUAL BUSINESS PROGRESS

The following sets out a comparison of the business strategies as stated in the Prospectus with the Group's actual business progress for the six months ended 30 June 2021 and up to the date of this announcement:

Business strategies as stated in the Prospectus

Continue to expand the customer base in the European market and explore new markets in the PRC, the US and other Asian countries

Actual business progress up to the date of this announcement

Sales and marketing activities in Europe, the US, and South-east Asia continued to be suspended due to lockdown measures imposed intermittently throughout the first half of 2021. The Group keeps close contact with existing customers by way of digital and virtual channels to maintain organic growth despite some of the project developments and product launches were put on hold due to COVID-19 pandemic. With the rollout of vaccination programmes, it is expected that the COVID-19 control measures and lockdowns imposed by the governments across the world will sooner or later be lifted. The Group will continue to put more resources on sales and marketing activities to prepare for global recovery from the pandemic.

Business strategies as stated in the Prospectus

Manufacture products of higher value and/or with higher profit contribution per the resources

Continue to expand the operations in ATE business segment

Strengthen the sales and marketing efforts in the industrial electronic manufacturing services sector

Actual business progress up to the date of this announcement

The COVID-19 pandemic has highlighted the importance of digital transformation to the community under the new normal where social distancing measures are maintained. The increased popularity of personal and public health awareness, remote/flexible work arrangements, and new energy vehicles have accelerated global demands on medical and healthcare products, automation and self-service equipment, and smart charging solutions. The Group will leverage its solid fundamentals in power electronics to develop related products to capture these business opportunities.

The ongoing COVID-19 pandemic and uncertain market conditions curtailed the business sentiment on capital investments, which adversely affected customers' demands on ATEs. As such, the Group continued to re-assign its ATEs talents to support its existing businesses and strengthen its competitive edge in the power electronics sector.

With worldwide lockdowns and strong containment measures, the European team of the Group turned most of the sales and marketing activities to digital and virtual means. They stayed in close contact with existing marketing teams in Hong Kong and the PRC to offer various service supports to customers and prepare for a rebound from the COVID-19 pandemic.

**Business strategies as stated
in the Prospectus**

Further enhance the production
efficiency and expand the
production capacity

**Actual business progress up to the date of
this announcement**

As disclosed in announcements of the Company dated 23 April 2021 and 22 June 2021 and the circular of the Company dated 26 July 2021, the Group had on 8 May 2021 and 30 June 2021, respectively, entered into tenancy agreements with Shiji Cooperative Economic Association of Dongchong Town, Nansha District, Guangzhou City, Guangdong Province* (廣東省廣州市南沙區東涌鎮石基股份合作經濟聯合社) (the “**Landlord**”) (collectively, the “**Tenancy Agreements**”) for the leasing of two respective factory buildings situated at No. 17 and No. 37, Dongchong Section, Shinan Highway, Shiji Village, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, the PRC* (中國廣東省廣州市南沙區東涌鎮石基村市南公路東涌段17及37號) (collectively, the “**Factory Buildings**”). The entering into of the Tenancy Agreements will allow the Group to increase its production capacity by expanding its production plant at the Factory Buildings. The expansion plan to be implemented in its existing production base would create synergy, minimise logistics and administrative costs and maximise production efficiency. Up to the date of this announcement, the Factory Buildings have not yet been delivered to the Group for rent. Based on the Group’s communication with the Landlord, it is expected that the Factory Buildings will be delivered to the Group on or before 15 December 2021. Details of the leasing of the Factory Buildings are set out in the announcements of the Company dated 23 April 2021 and 22 June 2021, respectively and the circular of the Company dated 26 July 2021.

On the one hand, the Group’s production facility in Ireland was brought to a halt during the period under review as a result of COVID-19 control measures imposed by local government. On the other hand, the production facility in Thailand had commenced operations in the first half of 2021 to cater for those products exported to the US. The COVID-19 pandemic restricted product and workforce movements, which adversely affected the Group’s production schedules and outputs. Most of the operating costs could not be spread over through mass production. As the take-up rate of COVID-19 vaccines ramps up, the production volume is expected to pick up as the global supply chain and workforce mobility will gradually resume.

Business strategies as stated in the Prospectus

Continue to recruit talents and professionals

Actual business progress up to the date of this announcement

The Group strives to transform the strategic talent centre (“STC”) in the Guangzhou City, Guangdong Province, the PRC as the innovation and development hub to recruit and nurture a pool of talents to conduct various innovative and technological projects, like remote working, warehouse digitalisation, cyber security, and so on. As at 30 June 2021, there were nine employees working at the STC to provide a wide range of value-added services to the Group. The management of the Group will continue to recruit talents of the necessary level and number at this STC for providing various supports to the Group.

USE OF PROCEEDS

The following table sets forth the status of use of net proceeds from the Listing as at 30 June 2021 and the expected timeline of the use of the unutilised proceeds:

Business strategies as set out in the Prospectus	The actual net proceeds prior to the reallocation HK\$' million	The reallocation HK\$' million	The actual net proceeds subsequent to the reallocation HK\$' million	Incurred up to 30 June 2021 HK\$' million	Balance as at 30 June 2021 HK\$' million	Expected timeline of full utilisation of the balance as at 30 June 2021
Development of new production base	77.8	–	77.8	(33.1)	44.7	end of 2023
Upgrading of existing production facilities	4.5	–	4.5	(4.3)	0.2	end of 2021
Establishment of offices in Dublin, Ireland and Paris, France	11.3	(8.3)	3.0	(3.0)	–	N/A
Establishment of the STC in Guangzhou City, Guangdong Province, the PRC	11.3	(5.0)	6.3	(5.8)	0.5	end of 2022
Working capital and other general corporate purposes	5.1	–	5.1	(5.1)	–	N/A
Business developments and operations in Europe	–	13.3	13.3	(9.7)	3.6	end of 2022
	<u>110.0</u>	<u>–</u>	<u>110.0</u>	<u>(61.0)</u>	<u>49.0</u>	

The unutilised net proceeds have been deposited in interest-bearing bank accounts with licensed banks in Hong Kong. The Board closely monitors the use of net proceeds with reference to those disclosed in the Prospectus and the announcement of the Company dated 25 October 2019 as to the change in use of proceeds from the Listing. Due to the uncertain economic and market conditions, driven by the multiple waves of COVID-19 and geopolitical uncertainties, the Group’s plans for the development of new production base in the PRC and business developments and operations in Europe have been deferred. The remaining portion of the net proceeds are expected to be utilised up to the financial year ending 31 December 2023. The expected timeline of full utilisation is based on the Directors’ best estimation barring unforeseen circumstances, and would be subject to change based on the future development of market conditions.

OUTLOOK

Although a wide range of COVID-19 vaccines have been launched for widespread injection, the impacts of supply chain disruption towards the electronics industry have outweighed the impacts of the pandemic. Whilst the Group's backlog orders reached a record high in the first half of 2021, the global material supplies affected its ability to meet customers' orders. The Group encounters unprecedented challenges from a general shortage of electronic components worldwide and international freight disruptions, causing increased material prices and longer lead times. The Group will continue to keep close contact with customers and suppliers to minimise the adverse effects, including but not limited to diversification of material sourcing, use of alternative materials, re-arrangement of production schedules, early shipment booking, etc.

It is always darkest before dawn. The Group will keep up its positive momentum, take proactive approaches to address the issues, and equip itself to enhance core competencies to seize the business opportunities from global economic recovery.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: HK0.8 cent per ordinary share).

On 24 May 2021, a final dividend of HK1.2 cents per ordinary share for the year ended 31 December 2020, absorbing an amount of HK\$12 million was approved by the shareholders of the Company, and was subsequently paid on 5 July 2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

EVENTS AFTER THE END OF THE REPORTING PERIOD

There are no significant events affecting the Group after the six months ended 30 June 2021 and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company's corporate governance code is based on the principles of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Company is committed to ensuring a quality Board and its transparency and accountability to its Shareholders. The Company complied with all code provisions in the CG Code during the six months ended 30 June 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct governing Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code and there were no events of non-compliance during the six months ended 30 June 2021.

AUDIT COMMITTEE

The Audit Committee was established on 27 October 2017 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 and paragraph D3 of the CG Code. The Audit Committee comprises three members, namely Mr. Cheung Kin Wing, Mr. Fung Chun Chung and Mr. Wong Raymond Fook Lam. The chairman of the Audit Committee is Mr. Cheung Kin Wing. The Audit Committee has reviewed this preliminary interim results announcement and the unaudited Interim Financial Information.

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The unaudited Interim Financial Information has been reviewed by the Company’s independent auditor, PricewaterhouseCoopers, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. The review report of the independent auditor will be included in the interim report to be sent to the Shareholders.

On behalf of the Board
Trio Industrial Electronics Group Limited
Lai Yiu Wah
Chairman and executive Director

Hong Kong, 23 August 2021

As at the date of this announcement, the Board comprises Mr. Lai Yiu Wah, Mr. Tai Leung Lam and Mr. Joseph Mac Carthy as executive Directors, Mr. Fung Chun Chung, Mr. Cheung Kin Wing and Mr. Wong Raymond Fook Lam as independent non-executive Directors.

* *For identification purpose only*