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HOME CONTROL INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1747)

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

The Board is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2020, together with the comparative figures for the corresponding period of 2019, as follows:

The table below sets forth the adjusted net profit and adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) of the Group:

	For the six months ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	US\$ million	US\$ million
Revenue	69.8	81.4
Reported Net Profit	1.5	(1.2)
Add: Restructuring severance expense	0.2	–
Add: Listing expense	–	1.8
	1.7	0.6
Adjusted Net Profit		
Add: Income tax expense	0.5	0.4
Add: Finance costs	1.1	1.7
Add: Withholding tax	0.0	0.1
Add: Depreciation and amortisation	2.0	2.1
Adjusted EBITDA	5.3	4.9

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

		For the six months ended	
		30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Notes</i>	US\$'000	US\$'000
Revenue	4	69,799	81,376
Cost of sales		<u>(55,580)</u>	<u>(67,168)</u>
Gross profit		14,219	14,208
Other income	4	271	4
Selling and distribution expenses		(3,627)	(4,111)
Administrative expenses		(6,348)	(8,312)
Other expenses		(1,388)	(912)
Finance costs		<u>(1,122)</u>	<u>(1,669)</u>
Profit/(loss) before tax	5	2,005	792
Income tax expense	6	<u>(502)</u>	<u>(418)</u>
Profit/(loss) for the period attributable to owners of the parent		<u>1,503</u>	<u>(1,210)</u>
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>44</u>	<u>4</u>
Other comprehensive income for the period		<u>44</u>	<u>4</u>
Total comprehensive income/(loss) for the period attributable to owners of the parent		<u>1,547</u>	<u>(1,206)</u>
Earnings/(loss) per share attributable to ordinary equity holders of the parent			
Basic	7	<u>US0.30 cents</u>	<u>US(0.29) cents</u>
Diluted	7	<u>US0.30 cents</u>	<u>US(0.29) cents</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2020 (Unaudited) <i>US\$'000</i>	As at 31 December 2019 (Audited) <i>US\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		7,116	7,828
Other intangible assets		161	251
Goodwill		8,877	8,877
Deferred tax assets		294	278
Prepayments, other receivables and other assets		366	150
Other investments		4,854	4,854
		<hr/>	<hr/>
Total non-current assets		21,668	22,238
Current assets			
Inventories		19,358	19,002
Trade receivables	8	30,990	36,916
Prepayments, other receivables and other assets		1,216	1,208
Pledged deposits	10	286	286
Cash and cash equivalents	10	22,147	28,480
		<hr/>	<hr/>
Total current assets		73,997	85,892
		<hr/>	<hr/>
Total assets		95,665	108,130
Current liabilities			
Trade payables	9	35,360	43,307
Other payables and accruals		4,977	5,314
Dividend payable	11	1,371	–
Contract liabilities		926	436
Interest-bearing bank loans		14,346	14,346
Lease liabilities		186	386
Provisions		144	121
Tax payable		1,191	1,038
		<hr/>	<hr/>
Total current liabilities		58,501	64,948
		<hr/>	<hr/>
Net current assets		15,496	20,944
		<hr/>	<hr/>
Total assets less current liabilities		37,164	43,182
		<hr/>	<hr/>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 30 June 2020 (Unaudited) US\$'000	As at 31 December 2019 (Audited) US\$'000
Non-current liabilities		
Interest-bearing bank loans	18,961	25,094
Lease liabilities	295	284
Provisions	511	572
Deferred tax liabilities	359	370
	<hr/>	<hr/>
Total non-current liabilities	20,126	26,320
	<hr/>	<hr/>
Net assets	17,038	16,862
	<hr/>	<hr/>
Equity		
Equity attributable to owners of the parent		
Share capital	5,017	5,017
Reserves	12,021	11,845
	<hr/>	<hr/>
Total equity	17,038	16,862
	<hr/>	<hr/>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Accordingly, the interim condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s audited consolidated financial statements for the year ended 31 December 2019.

The financial statements have been prepared under the historical cost convention. These financial statements are presented in United States dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>COVID-19-Related Rent Concessions (early adopted)</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

Other than as explained below regarding the impact of amendment to IFRS 16, the directors do not anticipate that the application of the revised IFRSs above will have a material effect on the Group’s interim condensed consolidated financial information.

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group’s office premises have been waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of US\$39,000 has been credited to profit or loss for the period ended 30 June 2020.

3. OPERATING SEGMENT INFORMATION

An operating segment, in part, is a component of an enterprise whose operating results are regularly reviewed by management to make decisions about resources to be allocated to the segment and assess its performance. Operating segments may be aggregated only to a limited extent. Management reviews the financial information about revenues for purpose of making operating decisions and assessing financial performance. Accordingly, the Group only have a single operating and reportable segment. Therefore, no further information about the operating segment is presented other than the entity-wide disclosures.

Entity-wide Disclosures

Geographical information

(a) *Revenue from external customers*

	For the six months ended	
	30 June	
	2020	2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
North America	29,102	29,734
Europe	20,867	23,104
Asia	12,794	19,233
Latin America	7,036	9,305
	<u>69,799</u>	<u>81,376</u>

The revenue information above is based on the locations of the customers.

(b) *Non-current assets*

	30 June	31 December
	2020	2019
	US\$'000	US\$'000
	(Unaudited)	(Audited)
North America	71	21
Europe	266	270
Asia	7,306	7,938
	<u>7,643</u>	<u>8,229</u>

The non-current asset information above is based on the locations of the non-current assets and excludes other investments, deferred tax assets and goodwill.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for the six months ended 30 June 2020 and 2019 is set out below:

	For the six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Customer 1	17,841	13,736
Customer 2	10,073	N/A*
Customer 3	N/A*	13,352

* The corresponding revenue from the customer is not disclosed as the revenue did not individually account for 10% or more of the Group's revenue for the period.

4. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
<i>Revenue from contracts with customers</i>		
Sale of goods	69,658	81,177
Royalty income	141	199
	<u>69,799</u>	<u>81,376</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information*

	For the six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Timing of revenue recognition		
At a point in time		
– Sale of goods	69,658	81,177
Overtime		
– Royalty income	141	199
Total revenue from contracts with customers	<u>69,799</u>	<u>81,376</u>

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Royalty income

The performance obligation is satisfied over time as the Group's licensing of patents to be used for the manufacturing of products by the licensee.

An analysis of other income is as follows:

	For the six months ended	
	30 June	
	2020	2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Government grants (<i>note</i>)	262	–
Others	9	4
	<hr/>	<hr/>
	271	4
	<hr/>	<hr/>

Note:

The government grants represent subsidies received from the local governments to support the entities to keep the business running and to retain their employees during the period of economic uncertainty due to the situation of the COVID-19 pandemic. There are no unfulfilled conditions or contingencies relating to these grants.

5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2020 <i>US\$'000</i> (Unaudited)	2019 <i>US\$'000</i> (Unaudited)
Cost of inventories sold	45,557	56,865
Depreciation of property, plant and equipment	1,664	1,475
Depreciation of right-of-use assets	238	218
Loss on disposal of property, plant and equipment	108	20
Amortisation of other intangible assets*	92	449
Foreign exchange differences, net	22	41
Withholding tax	22	78
Auditor's remuneration	95	61
Restructuring and severance costs	23	33
Research and development costs	2,994	3,129
Expenses for low value leases	4	3
Employee benefits expense (including directors' and chief executive's remuneration):		
Wage and salaries	5,902	5,967
Pension scheme contributions	836	682
Other employee benefits	154	130
Equity-settled share option expense	–	9
	6,892	6,788
Listing expenses	–	1,770

* The amortisation of other intangible assets for the period amounting to US\$92,000 (six months ended 30 June 2019: US\$114,000) and nil (six months ended 30 June 2019: US\$335,000) is included in "Administrative expenses" and "Cost of sales" in the statement of profit or loss and other comprehensive income.

6. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense as follows:

	For the six months ended	
	30 June	
	2020	2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Current tax – Singapore		
Charge for the period	200	34
Overprovision in prior periods	(55)	(196)
Current tax – United States of America		
Charge for the period	209	227
Current tax – Elsewhere		
Charge for the period	175	307
	<u>529</u>	<u>372</u>
Deferred tax		
– Singapore	(27)	46
Total tax charge for the period	<u>502</u>	<u>418</u>

7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 501,633,663 (2019: 412,500,000, as adjusted to reflect the capitalisation issue during the six months ended 30 June 2019) in issue.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amount presented for the period ended 30 June 2019 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

The calculations of basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 June	
	2020	2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	1,503	(1,210)
	501,633,663	412,500,000
	1,920,380	–
	503,554,043	412,500,000

8. TRADE RECEIVABLES

	30 June 2020	31 December 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
Trade receivables	31,524	37,450
Impairment	(534)	(534)
	30,990	36,916

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts on initial recognition.

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

	30 June 2020	31 December 2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Audited)
Not past due	21,772	28,254
Past due 0–90 days	7,598	7,501
Past due above 90 days	1,620	1,161
	30,990	36,916

The movements in the loss allowance for impairment of trade receivables are as follows:

	30 June 2020 US\$'000 (Unaudited)	31 December 2019 US\$'000 (Audited)
At beginning of period/year	534	456
Impairment losses recognised	–	135
Write-off	–	(57)
	<hr/>	<hr/>
At end of period/year	534	534

9. TRADE PAYABLES

	30 June 2020 US\$'000 (Unaudited)	31 December 2019 US\$'000 (Audited)
Trade payables	35,360	43,307

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

	30 June 2020 US\$'000 (Unaudited)	31 December 2019 US\$'000 (Audited)
Not past due	26,167	32,111
Past due 0–90 days	9,193	11,196
	<hr/>	<hr/>
	35,360	43,307

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

10. CASH AND CASH EQUIVALENTS

	30 June 2020 US\$'000 (Unaudited)	31 December 2019 US\$'000 (Audited)
Cash and bank balances	22,433	28,766
Less: Pledged deposits:		
Pledged for bank loans	(286)	(286)
Cash and cash equivalents	<u>22,147</u>	<u>28,480</u>
Denominated in:		
United States dollars (“US\$”)	18,143	23,805
Singapore dollars (“S\$”)	414	388
Euros (“EUR”)	130	912
British Pound Sterling (“GBP”)	425	531
Brazilian Real (“BRL”)	307	302
Chinese Renminbi (“RMB”)	521	329
Indian Rupee (“INR”)	20	20
Hong Kong dollars (“HK\$”)	2,473	2,479
	<u>22,433</u>	<u>28,766</u>

Cash at banks earn interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

As at 30 June 2020, the Group’s pledged deposits amounting to US\$286,000 (31 December 2019: US\$286,000) were pledged to secure the bank loans granted to the Group.

11. DIVIDENDS

	For the six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Final declared and paid – US\$0.27 cents per ordinary share	<u>1,371</u>	<u>–</u>

At the Annual General Meeting held on 26 June 2020, the shareholders approved a final dividend of US\$0.27 per ordinary share, which amounted to US\$1,371,000 in respect of the profit for the year ended 31 December 2019. The dividend is paid on 31 July 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

1. OVERVIEW

We are a globally leading home control solution provider headquartered in Singapore, with worldwide presence in North America, Europe, Asia and Latin America. Originally established as the home control division of Philips prior to the acquisition of the entire stake of Home Control Singapore Pte. Ltd. by the Company from Philips in April 2015, we have been operating in this industry for almost 30 years. Under the brand “Omni Remotes”, we develop and offer high quality and bespoke remote controls for a vast array of pay television (TV) operators and consumer electronics brands. Our products are shipped to over 40 countries, with a blue-chip customer base that includes AT&T Services Inc. in North America, Sky CP Limited, British Telecommunications PLC, Vodafone Group Services Limited, and Liberty Global Services B.V. in Europe, as well as Reliance Retail Limited, Bharti Airtel Limited, Beijing Xiaomi Electronic Products Co., Ltd. and Hisense Electric Co., Ltd. in Asia.

We maintain a strong focus on innovation, with over 200 invention patents and owning one of the most comprehensive Infrared (IR) and code databases in the world. Simple Setup, our intelligent multi-device control solution, was deployed to several customers in 2019. The next-generation Simple Setup Hybrid offers the responsiveness of an on-device database in tandem with the vast coverage of a global cloud database. This unique solution is expected to launch with a major operator in 2020. The Company is progressing with advanced user input, recognition and far field voice solutions, with customer trial intents line up in 2020. Our strategy to offer a new off-the-shelf Android TV remote control, the VINO portfolio, built from the ground up for the streaming segment, continue its design wins worldwide. We will expand the portfolio in second half of 2020 to cater for the increasing demand made possible by our leading industrial design and ease of integration.

2. BUSINESS REVIEW

In the second quarter of 2020, some of our customers’ rollout and installation were impacted when their countries began the COVID-19 lock-down control orders. This translated to postponement of some shipments from the second quarter to the third quarter of 2020, and the Group’s revenue for the six months ended 2020 came in at approximately US\$69.8 million, representing a decrease of 14.2% from US\$81.4 million in the same period in 2019.

Since the beginning of the outbreak of COVID-19 in early 2020, the Company has been able to take swift actions to minimize the overall impact to the business. With a combination of product mix and overall cost control, the Group has turned in better profit for the first six months ended 2020 as compared to the first six months ended 2019. Product mix has improved mainly due to the move to selling higher margin products, as shown from the improvement in gross margin from 17.5% for the six months ended 2019 to 20.4% for the six months ended 2020.

Net income reversed from a loss of US\$1.2 million for the six months ended 30 June 2019 to a profit of US\$1.5 million of the same period in 2020.

Net cash from operating activities improved significantly due to improvement in profitability for the six months ended 30 June 2020 compared to the same period in 2019.

3. PROSPECT AND OUTLOOK

If the outbreak situation does not get worse, the Group expects to maintain its cost control & profit momentum similar to the first half of 2020. In addition, the Company has secured refinancing of bank loan with lower interest rate starting from the second half of 2020 for further cost savings. The reason for securing new bank loan is to partially repay the existing bank loan with a higher interest rate and to plan ahead in case of good opportunities.

In the first half of 2020, the overall cash flow of the Group has improved, which provides the resilience the Company needs to continue navigating through this striving period. The Company will continue to exercise prudence while exploring new avenue to deliver shareholder values.

Other than investments in research & development, sales force expansion, as well as improvements to our supply chain for our existing business, the Company has initiated a program for the vertical markets. Our new COVID-19 contact tracing system is highly scalable and secure, comprising wearable devices as well as a cloud management system. According to a Mercer survey, over half of US companies are planning contact tracing for employees, with IDC estimating a potential market worth US\$4.3 billion. Our solution is expected to hit the market by end of the third quarter of 2020, and early feedback from global customers has been very positive so far.

At present, the Group expects the ongoing COVID-19 outbreak to have continuous impact on its business. It is difficult to estimate the full impact given the dynamic nature of these circumstances. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts. The Company has fully adhered to government measures and recommendations, with all sites and subsidiaries operational without impact to any function serving the business and the customers.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the six months ended 30 June in 2020 decreased by approximately 14.2% compared to the six months ended 30 June 2019, which was mainly contributed by COVID-19.

The following table sets forth the breakdown of revenue of the Group by the geographical location of customers for the six months ended 30 June 2020 and 30 June 2019, respectively.

	For the Six months ended 30 June 2020		For the Six months ended 30 June 2019		Changes	
	US\$'000	%	US\$'000	%	US\$'000	%
North America	29,102	41.7%	33,669	41.4%	(4,568)	(13.6%)
Europe	20,867	29.9%	19,169	23.6%	1,698	8.9%
Asia	12,794	18.3%	19,233	23.6%	(5,992)	(33.5%)
Latin America	7,036	10.1%	9,305	11.4%	(2,269)	(24.4%)
Total	<u>69,799</u>	<u>100.0%</u>	<u>81,376</u>	<u>100.0%</u>	<u>(11,130)</u>	<u>(14.2%)</u>

Cost of Sales

The cost of sales of the Group mainly consists of components including finished goods from ODM (original design manufacturing), outsourcing and overheads. The cost of sales amounted to approximately US\$55.6 million and approximately US\$67.2 million for the six months ended 30 June 2020 and the six months ended 30 June 2019 respectively, representing approximately 79.6% and approximately 82.5% of the total revenue for the corresponding periods.

The following table sets forth the breakdown of the cost of sales for the six months ended 30 June 2020 and the six months ended 30 June 2019, respectively.

	For the Six months ended 30 June 2020		For the Six months ended 30 June 2019	
	US\$'000	%	US\$'000	%
Cost of Components	45,557	82.0%	56,865	84.7%
Outsourcing	7,652	13.8%	8,040	12.0%
Overheads	2,371	4.2%	2,263	4.3%
	<u>55,580</u>	<u>100.0%</u>	<u>67,168</u>	<u>100.0%</u>

Gross profit

As a result of the changes in the revenue and cost of sales above, the Group's gross profit was approximately US\$14.2 million for the six months ended 30 June 2020, which was on par with the gross profit of US\$14.2 million for the six months ended 30 June 2019.

Other income

Other income of the Group increased from approximately US\$0.0 million for the six months ended 30 June 2019 to approximately US\$0.3 million for the six months ended 30 June 2020. The increase was primarily because of an increase in government grants.

Selling and distribution expenses

Selling and distribution expenses of the Group decreased from approximately US\$4.1 million for the six months ended 30 June 2019 to approximately US\$3.6 million for the six months ended 30 June 2020. The decrease in selling and distribution expenses was mainly due to approximately US\$0.2 million decrease in travelling expenses because of COVID-19, approximately US\$0.1 million decrease in distribution expenses and approximately US\$0.1 million decrease in employee benefit expenses.

Administrative expenses

Administrative expenses of the Group decreased by approximately 24.1% from approximately US\$8.3 million for the six months ended 30 June 2019 to approximately US\$6.3 million for the six months ended 30 June 2020. The decrease was mainly due to the decrease in listing expenses of approximately US\$1.8 million incurred for the six months ended 30 June 2020.

Other expenses

Other expenses of the Group increased from approximately US\$0.9 million for the six months ended 30 June 2019 to approximately US\$1.4 million for the six months ended 30 June 2020. The increase was mainly due to approximately US\$0.2 million increase in restructuring expenses, approximately US\$0.2 million increase in legal expenses and approximately US\$0.1 million increase in project related costs.

Finance costs

Comparing to the six months ended 30 June 2019, finance cost of the Group incurred during the six months ended 30 June 2020 decreased by approximately US\$0.6 million. The decrease was mainly due to approximately US\$0.5 million decrease in interest on bank borrowings.

Profit before tax

Profit before tax of the Group for the six months ended 30 June 2020 was approximately US\$2.0 million which was approximately US\$2.8 million higher than the loss before tax of approximately US\$0.8 million for the six months ended 30 June 2019. This was mainly due to an approximately US\$0.8 million decrease in administrative expenses, approximately US\$0.6 million decrease in finance costs and approximately US\$0.5 million decrease in selling and distribution expenses.

Income tax expense

The Group's income tax expense increased from approximately US\$0.4 million for the six months ended 30 June 2019 to approximately US\$0.5 million for the six months ended 30 June 2020. The income tax expense for the six months ended 30 June 2020 was higher mainly because of higher chargeable income for the six months ended 30 June 2020.

Profit for the period

As a result of the above, the Group recorded a net profit after tax of approximately US\$1.5 million for the six months ended 30 June 2020, as compared to a net loss after tax of approximately US\$1.2 million for the six months ended 30 June 2019.

Earnings per share

The basic and diluted earnings per share of the Group for the six months ended 30 June 2020 is US0.30 cents and US0.30 cents, respectively.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2020, the Group had cash and cash equivalents and pledged deposits of approximately US\$22.4 million. The Board is of the opinion that the financial position of the Group is strong and healthy, and the Group has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Cash flow

The following table sets forth a summary of the cash flows of the Group for the six months ended 30 June 2020 and 30 June 2019, respectively:

	For the six months ended	
	30 June 2020	30 June 2019
	<i>US\$'000</i>	<i>US\$'000</i>
Net cash from operating activities	3,063	521
Net cash used in investing activities	(1,464)	(1,566)
Net cash used in financing activities	(7,834)	(1,028)
Net decrease in cash and cash equivalents	(6,235)	(2,073)
Cash and cash equivalents at beginning of the period	28,480	19,854
Effects of exchange rate changes on cash and cash equivalents	(98)	(7)
Cash and cash equivalents at end of the period	22,147	17,774
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents as stated in the statement of financial position	22,147	17,774
Pledged for bank loans	286	–
Cash and cash equivalents as stated in the statement of cash flows	22,433	17,774

Net cash flow generated from operating activities

The Group generates cash from operating activities primarily from sales of goods. Cash flows from operating activities reflects profit before taxation for the six months ended 30 June 2020 adjusted for (i) non-cash item such as depreciation of property, plant and equipment, and amortization of intangible assets, plant and equipment and other items, which lead to the operating profit before changes in working capital; (ii) effects of cash flows arising from changes in working capital, including changes in inventories, trade and other receivables and trade and other payables and other items, which lead to cash generated from operations; and income tax paid and other items, which result in net cash generated from operating activities.

For the six months ended 30 June 2020, the Group's net cash generated from operating activities was approximately US\$3.1 million, primarily reflected (i) cash generated before working capital changes of approximately US\$5.4 million; (ii) decrease in trade receivables of approximately US\$5.9 million; partially offset by decrease in trade payables of approximately US\$7.9 million, and payment for tax of approximately US\$0.4 million.

Net cash flow used in investing activities

Cash flow used in investing activities mainly relates to purchase and disposal of property, plant and equipment. For the six months ended 30 June 2020, the Group's net cash used in investing activities was approximately US\$1.5 million, which was primarily attributable to purchases of property, plant and equipment of approximately US\$1.5 million.

Net cash flow used in financing activities

Cash flows used in financing activities mainly includes proceeds from interest-bearing bank loans and repayment of interest-bearing bank loans. For the six months ended 30 June 2020, the Group's net cash flow used in financing activities was approximately US\$7.8 million, mainly attributable to US\$7.3 million repayment of interest bearing bank loans, US\$0.8 million interest paid and repayment of lease obligations of US\$0.3 million.

NET CURRENT ASSETS

The Group's net current asset decreased by approximately US\$5.4 million from approximately US\$20.9 million as at 31 December 2019 to approximately US\$15.5 million as at 30 June 2020. The decrease was primarily due to (i) a decrease in trade receivables of approximately US\$5.9 million; (ii) a decrease in cash and cash equivalents of approximately US\$6.3 million; (iii) an increase in other payables and accruals of approximately US\$1.0 million, partially offset by a decrease in trade payables of approximately US\$7.9 million.

CAPITAL EXPENDITURE

The Group's capital expenditure consisted of purchase costs relating to property, plant and equipment. For the six months ended 30 June 2020, the Group's capital expenditure amounted to approximately US\$1.5 million for the acquisition of property, plant and equipment. The Group funded such capital expenditure primarily with cash generated from operating activities.

Capital and investment commitments

As at 30 June 2020, the Group did not have any capital and investment expenditure contracted for as at the end of the reporting period but not recognised in the financial statements.

BANK LOANS AND CONTINGENT LIABILITIES

Bank loans

The Group's bank loans primarily consisted of short and long-term trade financing from bank loans. As at 30 June 2020 and 31 December 2019, the Group had approximately US\$33.3 million and approximately US\$39.4 million respectively from bank loans.

As at 30 June 2020, the following were pledged to secure the Group's bank loans:

- (a) Charge over 375,000,000 Shares held by NHPEA IV Home Control Netherlands B.V., the controlling shareholder of the Company.
- (b) Share charge over Home Control Singapore Pte. Ltd..
- (c) Share pledge over Home Control Europe NV.
- (d) Share pledge over Premium Home Control Solutions LLC.
- (e) A minimum bank balance in the amount equivalent to the interest payable for the next six months and the Group's deposits amounting to US\$286,000.

As at 30 June 2020, the Group had available bank facilities of US\$45,000,000 and US\$35,000,000 has been drawn down under the facilities.

Contingent liabilities

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

Gearing ratio

Gearing ratio equals total debt divided by the adjusted total assets of the Group. Total debt includes all interest-bearing bank loans. Adjusted total assets excludes goodwill. The gearing ratios as at 31 December 2019 and 30 June 2020 are approximately 39.7% and approximately 38.4%, respectively.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have other plans for material investments or capital assets as at 30 June 2020.

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2020.

FOREIGN EXCHANGE RISK MANAGEMENT

The functional currency of the Group is United States dollar ("US\$"). The sales of the Group are mainly denominated in U.S. dollars while purchases are mainly denominated in U.S. dollars or RMB(only in the case of sales and purchases in the PRC). In addition, the Group has its headquarters in Singapore and operating subsidiaries in the U.S., Belgium, the PRC and Brazil, of which overheads are settled in local currencies and therefore the Group is exposed to foreign exchange risks. Fluctuations in foreign exchange rates may be caused by various factors such as change in government policies, change in domestic and international economic and political conditions, and is always unpredictable. The Group had not entered

into any agreements to hedge its exchange rate exposure, as the Group's results of operations has generally been partially mitigated by the natural offset of foreign currency receivables with foreign currency payables. Going forward, the Group expects that exchange rates of SGD, RMB and US\$ will continue to fluctuate. Changes in the foreign exchange rates between the Group's functional currencies and reporting currency may have an adverse impact on the Group's finance costs, sales and product margins, and may reduce the value of, and dividends payable on, the Shares. The Group's business and financial position may be materially and adversely affected. The management of the Group will continue to monitor the Group's foreign currency exchange exposure and will take prudent measures to minimise that currency exchange risk.

EMPLOYEES, REMUNERATION POLICY AND SHARE OPTION SCHEME

As at 30 June 2020, the Group had 192 employees (31 December 2019: 191 employees). The employees benefit expense incurred during the six months ended 30 June 2020 was approximately US\$6.9 million. As required by the applicable laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local government. The Group's remuneration policy rewards employees and Directors based on individual's performance, demonstrated capabilities, involvement, market comparable information and the performance of the Group. The Group improves the professional skills and management level of its employees through internal and external training. To ensure that the Group attracts and retains competent staff, remuneration packages are reviewed on a regular basis. Performance bonuses are offered to qualified employees based on individual and the Group's performance. We did not experience any material labour disputes during the six months ended 30 June 2020. The Company adopted a share option scheme on 1 May 2015 as incentive for eligible employees.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the date of this announcement, the Group had not entered into any off-balance sheet transactions.

USE OF PROCEEDS FROM LISTING

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date and the net proceeds raised from this initial public offering after deducting underwriting fees and other related listing expenses amounted to approximately HK\$84.93 million (equivalent to approximately US\$10.83 million) (the "**IPO Proceeds**").

As stated in the prospectus of the Company (the "**Prospectus**") dated 31 October 2019, the IPO Proceeds have been and will be used in the same manner as set out under the section headed "Future Plans and Use of Proceeds" in the Prospectus.

As at 30 June 2020, the Group had utilised the IPO Proceeds as set out in the table below:

	Planned use of IPO Proceeds (adjusted on a pro rata basis on the actual net proceeds) <i>HK\$' million</i>	Planned use of IPO Proceeds (adjusted on a pro rata basis on the actual net proceeds) <i>US\$' million</i>	Amount utilised up to 30 June 2020 <i>US\$' million</i>	Expected timeline for the unutilized proceeds
1 Strategic investments or acquisitions in the OTT system and/or smart home security products	23.01	2.93	0.00	The unutilized use of proceeds will be used as per the prospectus.
2 Repayment of bank borrowing	21.12	2.69	2.69	–
3 R&D and develop the products for OTT segment and extend product lines in smart home products	14.27	1.82	0.00	The unutilized use of proceeds will be used as per the prospectus.
4 Expansion of professional sales force to support business expansion	13.8	1.76	0.00	The unutilized use of proceeds will be used as per the prospectus.
5 Strengthen the supply chain management and investment by extending beyond the PRC	6.57	0.84	0.84	–
6 Working capital and general corporate purposes	6.16	0.79	0.00	The unutilized use of proceeds will be used as per the prospectus.
	84.93	10.83	3.53	

The Directors expect to improve the overall performance of the Group through the upcoming utilisation of the net proceeds from the Listing.

EVENTS AFTER THE REPORTING PERIOD

No other significant events that require additional disclosures or adjustments occurred after the six months period ended 30 June 2020.

CORPORATE GOVERNANCE CODE

The Group is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimise return for Shareholders.

The Company has adopted a corporate governance policy with provisions no less exacting than the Corporate Governance Code and complied with all the applicable code provisions set out in the Corporate Governance Code throughout the six months ended 30 June 2020.

INTERIM DIVIDEND

The Board of the Company did not recommend to declare any interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: Nil).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors and relevant employees. Upon specific enquiry of all Directors, all Directors have confirmed that they complied with the required standards set out in the Model Code for the six months ended 30 June 2020.

REVIEW OF FINANCIAL INFORMATION BY THE AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the Corporate Governance Code. As at the date of this announcement, the Audit Committee consists of the three independent non-executive Directors, namely, Mr. Shou Kang CHEN (being the chairman of the Audit Committee), Mr. Werner Peter VAN ECK and Mr. Edmond Ming Siang JAUW.

The Audit committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2020 and discussed with the management the accounting principles and practices adopted by the Group, risk management and internal controls and financial reporting matters of the Group and results announcement.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS AND DISPATCH OF INTERIM REPORT

This interim results announcement is published on the Stock Exchange’s website at www.hkexnews.hk and the Company’s website at www.omniremotes.com. The interim report for the six months ended 30 June 2020 containing all information required by the Listing Rules will be dispatched to the Shareholders and made available on the above websites in due course.

DEFINITIONS

“Board”	the board of directors of the Company
“China” or “PRC”	the People’s Republic of China, excluding, Hong Kong, Macau and Taiwan
“Company”	Home Control International Limited, a company incorporated in the Cayman Islands on 24 December 2014 as an exempted company with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1747)
“Corporate Governance Code”	code on corporate governance practices as set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”, “we”, “our” or “us”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of the Shares of the Company on the Main Board of the Stock Exchange
“Listing Date”	14 November 2019
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“Model Code”	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules

“Philips”	Koninklijke Philips N.V., one of the largest electronics companies in the world, incorporated under the laws of the Netherlands and headquartered in Amsterdam
“RMB”	Renminbi, the lawful currency of the PRC
“SGD”	Singapore dollar(s), the lawful currency of the Republic of Singapore
“Share(s)”	ordinary share(s) with nominal value of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of Share(s) of the Company
“Singapore”	the Republic of Singapore
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“U.S.” or “United States”	the United States of America
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States

On behalf of the Board
Home Control International Limited
Yu GAO
Chairman and Non-executive Director

Hong Kong, 20 August 2020

As of the date of this announcement, the Board comprises Mr. Alain PERROT as executive Director; Mr. Yu GAO and Mr. Kwok King Kingsley CHAN as non-executive Directors; and Mr. Werner Peter VAN ECK, Mr. Shou Kang CHEN and Mr. Edmond Ming Siang JAUW as independent non-executive Directors.