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ISDN HOLDINGS LIMITED

億仕登控股有限公司

(Incorporated in the Republic of Singapore with limited liability)

(Hong Kong stock code: 1656)

(Singapore stock code: I07.SI)

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

FINANCIAL HIGHLIGHTS

	For the six months ended		% Change
	2020	2019	
	S\$'000	S\$'000	
Revenue	167,185	146,963	13.8%
Gross Profit	41,335	37,399	10.5%
Profit for the period and attributable to owners of the Company	9,572	5,548	72.5%
Basic earnings per share (Singapore cents)	2.23	1.35	

The Board has resolved not to declare interim dividend for the current period. (2019 interim: nil)

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of ISDN Holdings Limited (the “**Company**”) hereby announces the consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2020 (the “**1H2020**”), together with the relevant comparative audited or unaudited figures. The Group’s interim results for 1H2020 are unaudited but have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	<i>Note</i>	Six months ended 30 June	
		2020 S\$’000 (unaudited)	2019 S\$’000 (unaudited)
REVENUE	5	167,185	146,963
Cost of sales		(125,850)	(109,564)
Gross profit		41,335	37,399
Other operating income	6	2,483	2,331
Distribution costs		(11,534)	(12,363)
Administrative expenses		(15,328)	(15,179)
Net impairment gain on financial assets		423	77
Other operating expenses		(245)	(789)
Finance costs	7	(972)	(827)
Share of profit of associates		471	272
PROFIT BEFORE INCOME TAX	8	16,633	10,921
Income tax	9	(3,751)	(2,597)
PROFIT FOR THE PERIOD		12,882	8,324
OTHER COMPREHENSIVE INCOME, NET OF TAX:			
<u>Items that may be subsequently reclassified to profit and loss</u>			
- Net fair value changes on cash flow hedge		31	32
- Exchange differences on translation		2,012	(1,094)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		14,925	7,262

	Six months ended 30 June	
<i>Note</i>	2020	2019
	S\$'000	S\$'000
	(unaudited)	(unaudited)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO:		
Equity holders of the Company	9,572	5,548
Non-controlling interests	3,310	2,776
	<u>12,882</u>	<u>8,324</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		
ATTRIBUTABLE TO:		
Equity holders of the Company	11,071	4,625
Non-controlling interests	3,854	2,637
	<u>14,925</u>	<u>7,262</u>
EARNINGS PER SHARE:		
Basic and diluted	<i>11</i> 2.23	1.35
	<u>cents</u>	<u>cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	<i>Note</i>	30 June 2020 S\$'000 (unaudited)	31 December 2019 S\$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		53,493	43,965
Investment properties		468	479
Land use rights		1,203	1,199
Goodwill		12,227	12,227
Associates		5,406	5,646
Service concession receivables	<i>12</i>	54,483	34,261
Other financial assets		900	900
Deferred tax assets		155	152
Total non-current assets		128,335	98,829
Current assets			
Inventories		64,671	53,131
Trade and other receivables	<i>12</i>	103,250	111,804
Cash and bank balances		52,130	37,998
Total current assets		220,051	202,933
Total Assets		348,386	301,762

	<i>Note</i>	30 June 2020 S\$'000 (unaudited)	31 December 2019 S\$'000 (audited)
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share Capital	<i>13</i>	78,095	78,095
Reserves		85,721	74,650
		163,816	152,745
Non-controlling interests		49,388	45,825
Total equity		213,204	198,570
Non-current liabilities			
Bank borrowings		16,809	7,096
Leases liabilities		215	1,309
Deferred tax liabilities		655	655
Total non-current liabilities		17,679	9,060
Current liabilities			
Bank borrowings		18,917	20,186
Leases liabilities		2,706	1,659
Trade and other payables	<i>14</i>	77,781	60,769
Contract liabilities		14,491	8,913
Current tax liabilities		3,608	2,605
Total current liabilities		117,503	94,132
Total liabilities		135,182	103,192
Total Equity and Liabilities		348,386	301,762

NOTES

1. GENERAL

The Company is a public limited liability company incorporated and domiciled in Singapore and is dual listed on the Mainboard of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) and the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The Company’s registered office and principal place of business is No. 10 Kaki Bukit Road 1, #01-30 KB Industrial Building, Singapore 416175.

The immediate and ultimate holding company is Assetraise Holdings Limited, a company incorporated in the British Virgin Islands. Assetraise Holdings Limited is beneficially owned by Mr. Teo Cher Koon, the Managing Director and President of the Company and his spouse, Ms. Thang Yee Chin.

The Company’s principal activities included the provision of technical consultancy, training services, and management services.

2. BASIS OF PREPARATION

The interim results set out in the announcement do not constitute the Group’s interim report for the six months ended 30 June 2020 but are extracted from that report.

The unaudited condensed consolidated interim financial information for the financial period ended 30 June 2020 has been prepared in accordance with Singapore Financial Reporting Standard (International) 1-34 “Interim Financial Reporting” (**SFRS(I) 1-34**) issued by the Accounting Standards Council (“**ASC**”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Hong Kong Listing Rules**”).

The unaudited condensed consolidated interim financial information has been prepared on the historical basis, except certain financial assets and liabilities which are carried at fair value. The unaudited condensed consolidated interim financial information is presented in Singapore dollars (“**S\$**”) and all values are rounded to the nearest thousand (S\$000), except otherwise indicated.

The Group has adopted the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with those of the audited financial statements for the year ended 31 December 2019.

3. ADOPTION OF NEW OR AMENDED FRS

The Group and the Company have applied the same accounting policies and methods of computation in the financial statements for the current financial period consistent with those of the audited financial statements for the year ended 31 December 2019.

The Group has adopted all the new and revised SFRS(I)s that are relevant to its operations and effective for annual period beginning on 1 January 2020. The application of the new and revised standards and interpretations has no material effect on the financial statements.

4. SEGMENT INFORMATION

The business of the Group is organised into the following business segments:

- Provision of Engineering Solutions — Motion Control
- Other Specialised Engineering Solutions
- Industrial Computing Solutions

Segment results represent the profit earned by each segment without allocation of corporate expenses, rental income, share of profit of associates, interest income and finance costs, and income tax. Segment assets/liabilities are all operating assets/liabilities that are employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. This is the measure reported to management for the purposes of resource allocation and assessment of segment performance. Segment revenue includes transfer between operating segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. The transfers are eliminated on consolidation. No operating segments have been aggregated to form the reportable segments above.

(a) Reportable operating segments

	Engineering Solutions		Other Specialised		Industrial Computing		Others		Elimination		Consolidated	
	– Motion Control		Engineering		Solutions							
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Revenue												
External Sales	116,353	112,080	26,736	28,848	4,009	3,346	20,087	2,689	-	-	167,185	146,963
Inter-segment sales	3,299	7,694	554	587	205	63	-	-	(4,058)	(8,344)	-	-
	119,652	119,774	27,290	29,435	4,214	3,409	20,087	2,689	(4,058)	(8,344)	167,185	146,963
Results												
Segment results	15,251	11,077	1,180	1,711	791	538	727	(734)	-	-	17,949	12,592
Share of profit/(loss) of associates	471	273	-	-	-	-	-	(1)	-	-	471	272
Corporate expenses											(1,335)	(1,586)
Rental income											278	266
Interest income											242	204
Finance costs											(972)	(827)
Profit before income tax											16,633	10,921
Income tax											(3,751)	(2,597)
Profit for the six months ended 30 June											12,882	8,324
Assets												
Segment assets	143,394	131,209	37,230	33,960	4,363	3,472	101,587	83,030	(8,418)	(6,259)	278,156	245,412
Goodwill	2,178	2,178	9,507	9,508	-	-	542	541	-	-	12,227	12,227
Associates	4,686	4,241	-	-	-	-	720	1,405	-	-	5,406	5,646
Investment Properties											468	479
Cash and bank balances											52,130	37,998
Consolidated total assets as at 30 June/ 31 December											348,386	301,762
Liabilities												
Segment liabilities	57,720	43,547	15,569	13,168	816	912	24,671	13,209	(8,418)	(6,259)	90,358	64,577
Bank borrowings and lease liabilities											38,647	30,250
Income tax liabilities											3,608	2,605
Others unallocated corporate liabilities											2,569	5,760
Consolidated total liabilities as at 30 June/ 31 December											135,182	103,192
Other information												
Capital expenditure on:												
- property, plant and equipment	125	575	274	970	-	2	677	47	-	-	1,076	1,594
Depreciation of												
- property, plant and equipment	1,135	610	677	388	7	19	99	19	-	-	1,918	1,036
- investment properties	8	8	-	-	-	-	-	-	-	-	8	8
Other non-cash expenses:												
- amortisation of land use rights	16	17	-	-	-	-	-	-	-	-	16	17
- trade receivables written off	-	5	-	-	-	-	-	-	-	-	-	5
- allowance for inventory obsolescence	200	186	14	6	-	-	-	-	-	-	214	192
- allowance for impairment of trade receivables	12	20	-	27	8	-	-	-	-	-	20	47
- property, plant and equipment written off	-	-	1	2	-	-	-	-	-	-	1	2
- inventories written off	-	216	-	8	-	-	-	-	-	-	-	224
- write back of allowance for inventory obsolescence	(18)	(292)	(28)	-	-	-	-	-	-	-	(46)	(292)
- write back of allowance for trade receivables	-	(129)	(19)	-	-	-	(424)	-	-	-	(443)	(129)

(b) Geographical information

The Group operates in four principal geographical areas — Singapore (country of domicile), the People’s Republic of China (the “**PRC**”), Hong Kong and Malaysia.

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenue from external customers		Non-current assets	
	For the six months ended		as at	
	2020	2019	30 June 2020	31 December 2019
	S\$’000	S\$’000	S\$’000	S\$’000
Singapore	24,794	21,753	34,890	28,127
The PRC	100,146	103,186	25,940	23,616
Hong Kong	3,059	2,856	1,058	1,074
Malaysia	4,266	5,171	964	937
Others	34,920	13,997	65,483	45,075
Total	167,185	146,963	128,335	98,829

(c) Information about Major Customers

The Group’s revenue from any single external customer is less than 10%.

5. REVENUE

	Six months ended 30 June	
	2020	2019
	S\$’000	S\$’000
Industrial Automation Solutions	147,098	144,335
Construction Revenue	20,087	2,628
	167,185	146,963

6. OTHER OPERATING INCOME

	Six months ended 30 June	
	2020	2019
	S\$’000	S\$’000
Interest income		
- Interest on bank deposits	188	150
- Interest on loan to an associate	54	54
Total interest income on financial assets at amortised cost	242	204
Commission income	108	433
Foreign exchange gain, net	716	-
Gain on disposal of interest in an associate	23	-
Gain on disposal of property, plant and equipment, net	-	3
Government grants	364	103
Miscellaneous income	481	630
Operating lease rental income:		
- Investment properties	27	27
- Sub-let of office/warehouse premises	251	239
Property management income	87	178
Technical service income	138	222
Write back of allowance of inventory obsolescence	46	292
	2,483	2,331

7. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	S\$'000	S\$'000
Interest expense on:		
- Bank loans	721	767
- Trust receipts	51	27
- Leases liabilities	78	5
- Others	122	28
	<u>972</u>	<u>827</u>

8. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2020	2019
	S\$'000	S\$'000
Profit before income tax has been arrived at after charging:		
Amortisation of land use rights	16	17
Depreciation of property, plant and equipment		
- Recognised in cost of sales	170	191
- Recognised in distribution costs	243	95
- Recognised in administrative expenses	1,505	750
	1,918	1,036
Depreciation of investment properties	8	8
Other operating expense included:		
- Trade receivables written off	-	5
- Allowance for inventories obsolescence	214	192
- Inventories written off	-	224
- Foreign exchange loss, net	-	339
- Loss on disposal of property, plant and equipment, net	7	-
- Property, plant and equipment written off	1	2
Operating lease rental expenses	76	968

9. INCOME TAX

	Six months ended 30 June	
	2020	2019
	S\$'000	S\$'000
Current income tax		
- Singapore	801	330
- The PRC	2,883	2,303
- Outside Singapore and the PRC	24	-
- Under/(over) provision in respect of prior year	43	(29)
Deferred taxation		
- Over provision in respect of the prior year	-	(7)
	<u>3,751</u>	<u>2,597</u>

9. INCOME TAX (CONT'D)

The corporate tax rate applicable to the Company and those entities of the Group incorporated in Singapore for the periods ended 30 June 2020 and 2019 is 17%. The corporate tax rate applicable to those entities of the Group incorporated in Malaysia for the periods ended 30 June 2020 and 2019 is 24%.

In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the “**Ordinance**”). Under the two-tiered profits tax rate regime, the first Hong Kong Dollar 2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits at 16.5%. The Ordinance is effective from the year of assessment 2019-2020.

For those entities of the Group operating in the PRC, the PRC income tax is calculated at the applicable tax rate in accordance with the relevant laws and regulations in the PRC. On 16 March 2007, the Enterprise Income Tax Law (the “**new EIT Law**”) was passed at the Fifth Session of the Tenth National People’s Congress of the PRC, in which the income tax rate for both domestic and foreign-investment enterprise was unified at 25% effective from 1 January 2008 (Order of the President [2007] No. 63).

The remaining entities of the Group operating in jurisdictions other than the above have either no taxable income or are not material.

10. DIVIDENDS PAID

Six months ended 30 June	
2020	2019
S\$’000	S\$’000

Paid during the financial period:

Tax exempt (one-tier) final dividend of Singapore 0.4 Singapore cents per share (2019: 0.7 Singapore cents) in respect of the previous year

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The Board recommended a final tax-exempt dividend of 0.4 Singapore cents (the “**Final Dividend**”) (2019: 0.7 Singapore cents) per ordinary share (the “**Share**”), amounting to S\$1,718,000 (2019: S\$2,952,000) under the exempt one-tier system. The Board proposed that the eligible shareholders of the Company (the “**Shareholders**”) be given the option to receive the Final Dividend in cash, or in the form of fully paid new Shares in lieu of cash, or partly in cash and partly in the form of fully paid new Shares under the Scrip Dividend Scheme. The Final Dividend has been approved by the Shareholders at the annual general meeting of the Company held on 29 June 2020 and will be paid on 28 August 2020 to the eligible Shareholders whose names appeared on the register of members of the Company on 7 July 2020.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

Six months ended 30 June	
2020	2019
S\$’000	S\$’000

Earnings for the purpose of basic and diluted earnings per share, being profit for the period attributable to owners of the Company

9,572	5,548
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Weighted average number of ordinary shares for the purpose of basic earnings per share

429,572,849	410,344,799
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The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the periods ended 30 June 2020 and 2019.

12. TRADE AND OTHER RECEIVABLES

	30 June 2020 S\$'000	31 December 2019 S\$'000
<u>Non-current:</u>		
Service concession receivables	54,483	34,261
<u>Current:</u>		
Trade receivables, net of impairment		
- Note receivables	4,503	10,607
- Third parties	66,623	59,143
- Associates	2,667	2,342
- Related parties	2,422	1,695
	76,215	73,787
Other receivables:		
Funding to investee company	5,823	5,788
Advances to		
- Suppliers	6,181	12,192
- Associates	127	115
- Related parties	151	177
Deposits	826	579
Loan to associates	254	3,659
Promissory note due	1,204	1,158
Amounts owing from non-controlling interest	7,268	7,485
Sundry debtors	4,008	5,875
	25,842	37,028
Prepayment	1,193	989
	103,250	111,804
	157,733	146,065

The aging analysis of trade receivables based on invoice date is as follows:

	30 June 2020 S\$'000	31 December 2019 S\$'000
Within 30 days	33,996	39,700
31 - 90 days	26,161	18,611
Over 90 days	16,058	15,476
	76,215	73,787

Trade receivables are non-interest bearing and are usually due within 30 - 90 days term. Included in trade receivables as at 30 June 2020 were trade receivables from third parties amounting to S\$656,000 (2019: S\$788,000), under account receivables bulk factoring arrangement via a bank facility agreement entered by a subsidiary of the Company to sell its trade receivables to banks. These factored trade receivables were included in trade receivables as the subsidiary still retained the risk and rewards associated with the delay and default in payment by customers.

13. SHARE CAPITAL

	Issued and fully paid			
	No. of ordinary shares		Amount	
	30 June 2020	31 December 2019	30 June 2020 S\$'000	31 December 2019 S\$'000
At the beginning of year	429,572,849	394,689,186	78,095	70,984
Subscription shares issued	-	26,987,295	-	5,397
Shares issued-in-lieu of cash for dividend	-	7,896,368	-	1,714
At the end of period /year	429,572,849	429,572,849	78,095	78,095

Shares do not have any par value. The holders of Shares are entitled to receive dividends as and when declared by the Company. All Shares carry one vote per Share without restrictions and rank equally with respect to the Company's residual assets.

14. TRADE AND OTHER PAYABLES

	30 June 2020 S\$'000	31 December 2019 S\$'000
Trade payables		
- Third parties	29,765	25,168
- Associates	36	97
- Related parties	11,210	9,729
	41,011	34,994
Other payables:		
Accrued operating expenses	17,248	17,887
Amount owing to an associate	26	27
Amount owing to non-controlling interests	2,072	2,032
Derivatives	-	1
Other payables	17,424	5,828
	77,781	60,769

The aging analysis of trade payables based on invoice date is as follows:

	30 June 2020 S\$'000	31 December 2019 S\$'000
Within 30 days	27,292	22,264
31 - 90 days	12,398	11,973
Over 90 days	1,321	757
	41,011	34,994

Trade payables are non-interest bearing and are usually settled within 30 – 90 days term.

15. EVENT AFTER THE REPORTING PERIOD

No major subsequent event has occurred since the end of the financial period ended 30 June 2020 up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS

REVIEW

For 1H2020, revenue grew by approximately S\$20.2 million, or 13.8% year-on-year (“YoY”) from S\$147.0 million for 1H2019 to S\$167.2 million for 1H2020. This can be attributable to the growing demand for the Group’s core industrial automation solutions in Southeast Asia, including Singapore, Malaysia, and Vietnam, because Southeast Asia has received benefits from the reconfiguring of global industrial supply chains. In addition, we recorded construction revenue of approximately S\$20.1 million from the construction of mini-hydropower plants in Indonesia.

In line with growing revenue, gross profit increased by 10.5% YoY from S\$37.4 million for 1H2019 to S\$41.3 million for 1H2020. Overall, gross profit margin slid by 0.7 percentage points, from 25.4% to 24.7% for 1H2019 and 1H2020 respectively. Excluding gross margin from the hydropower plants, gross profit margin would have increased to 27.1%.

Our business focus continues to be predominantly in the PRC, contributing approximately 60.0% in 1H2020 (1H2019: 70.2%), with Singapore, Hong Kong and Malaysia as other major contributors to our revenue, accounting for 14.8%, 1.9%, and 2.6% respectively for 1H2020 (1H2019: 14.8%, 1.9%, and 3.5% respectively).

During the first half of 2020, the coronavirus pandemic led to a series of economic shutdowns worldwide as nations scramble to curtail the rapid spread of the COVID-19 virus.

ISDN’s operations in the PRC were impacted by the extended national Chinese New Year Holidays, but with a diversified business portfolio, the Group was able to remain resilient and to respond quickly to changing global conditions. Indeed, after securing the health of its employees, the Group observed that the pandemic environment has accelerated digitisation efforts in business around the world, providing support for ISDN’s core business to focus on the long-term growth prospects in industry 4.0 (“**Industry 4.0**”).

In line with all the good progress made during these stretching times, the Group recorded a surge in revenue and net profits to S\$167.2 million and S\$9.6 million for 1H2020 respectively.

FUTURE PROSPECTS

Market conditions remained fraught with challenges as the coronavirus continues to ravage economies and Washington-Beijing trade tensions worsen. Operating in such an environment, the Group believes that it has benefited from the diversification in its customers, end-industries and geographies it operates in, and intends to continue maintaining focus on strategically diversified growth segments. As its emerging energy business progresses towards commercialization, ISDN continues to grow its core industrial automation business by exploring the latest smart manufacturing solutions and moving up the technology value chain.

Although COVID-19 has greatly disrupted the global economy as a whole, it has also proven a clear catalyst for accelerating digitisation and the transition to Industry 4.0 automation. The Group believes it is favourably positioned to benefit from this long-term trend as it delivers a broad and deep set of high-tech precision control systems and remote automation technologies for its customers.

To further expand its diversified business, ISDN entered into a joint venture with German company ERST Project GmbH (“**ERST**”) in May 2020 to offer advanced and environmentally-friendly disinfectant solutions - Waterliq and Erstotizer - to the Asia Pacific region to aid in the fight against the COVID-19 pathogen. ISDN has since secured major deals with Centurion Corporation, The Science Park, and the Public Transport Company, with multiple disinfecting projects with cleaning companies across the city-state. The Group believes that, given the long-term nature of this worsening coronavirus epidemic, the demand for surface disinfectants will increase¹ and this new venture holds much promise.

¹ HR Asia

<https://hrasiamedia.com/featured-news/2020/as-the-covid-19-battle-remains-long-drawn-how-can-asia-pacific-leaders-protect-employee-well-being/>

FUTURE PROSPECTS (CON'T)

While the coronavirus pandemic shows little signs of abating, the Group remains confident its prospects in the broad and multi-year Industry 4.0 opportunity. The Group notes that despite of short-term fluctuations, industrial automation is forecasted to grow steadily between 2021 and 2026², alongside increased demand for machine tools, robotics, semiconductors, and more, with the support from strategies like “Made in China 2025”. According to market researcher Technavio³, the motion control market is poised to expand by more than US\$2.02 billion from 2020 to 2024, at a compound annual growth rate (CAGR) of over 3%, after accounting for the COVID-19 impact.

While it pursues its growth strategy, the Group will continue to consolidate its engineering and administrative operations to improve productivity, and make prudent investments to further its core capabilities to move up the value chain for the wider Industry 4.0 opportunity. The Group also continues to keep a keen eye on the volatile market conditions, to ensure appropriate business agility. The Group believes that ISDN’s growth strategy, industrial scale, and business diversification continue to be a solid foundation for long-term growth in the PRC and Southeast Asia.

FINANCIAL REVIEW

Revenue and Gross Profit Margin

	1H2020	1H2019	% change
	S\$’000	S\$’000	+ / (-)
Industrial Automation Solutions			
Revenue	147,098	144,335	1.9%
Gross profit	39,846	37,204	7.1%
Gross profit margin	27.1%	25.8%	1.3 ppt
Construction Revenue			
Revenue	20,087	2,628	n.m.
Gross profit	1,489	195	n.m.
Gross profit margin	7.4%	7.4%	0.0 ppt
TOTAL			
Revenue	167,185	146,963	13.8%
Gross profit	41,335	37,399	10.5%
Gross profit margin	24.7%	25.4%	(0.7) ppt

n.m.: not meaningful

The Group’s revenue of S\$167.2 million for 1H2020 was higher by approximately S\$20.2 million or 13.8% as compared to 1H2019. This can be attributable to the growing demand for the Group’s core industrial automation solutions in Southeast Asia, including Singapore, Malaysia, and Vietnam, because Southeast Asia has received benefits from the reconfiguring of global industrial supply chains. In addition, we recorded construction revenue of approximately S\$20.1 million from the construction of mini-hydropower plants in the Republic of Indonesia (“**Indonesia**”).

² Assessment of China’s Motion Controller Industry, 2019-2026

<https://www.businesswire.com/news/home/20200603005453/en/Assessment-Chinas-Motion-Controller-Industry-2019-2026-Size>

³ Insight & Forecast with Potential Impact of COVID-19 – Motion Control Market 2020-2024

<https://www.businesswire.com/news/home/20200624005618/en/Insights-Forecast-Potential-Impact-COVID-19---Motion>

Revenue and Gross Profit Margin (Con't)

Gross profit of S\$41.3 million was S\$3.9 million, or 10.5% higher in 1H2020 as compared to 1H2019. Overall, the gross profit margin declined slightly in 1H2020 as compared to 1H2019 by 0.7 percentage point from 25.4% to 24.7%. Excluding the gross profit arising from the construction of mini-hydropower plant under the service concession arrangement, the Group managed to maintain its gross profit margin at 27.1% in 1H2020 which is higher than corresponding period last year by 1.3 percentage point.

Other operating income

Other operating income increased by S\$0.2 million, or 6.5% to S\$2.5 million for 1H2020. The increase was mainly due to the increase in net foreign exchange gain of S\$0.7 million, increase in government grant S\$0.3 million; partially offset by decrease in write back of allowance for inventory obsolescence of S\$0.2 million, decrease in commission income of S\$0.3 million, decrease in technical consultancy fees of S\$0.1 million and decrease in property management income of S\$0.1 million.

Distribution costs

Distribution costs decreased by S\$0.8 million, or 6.7% to S\$11.5 million for 1H2020. The decrease was mainly due to decrease in office expenses of S\$0.3 million, decrease in personnel expense of S\$0.2 million and decrease in travelling expenses of S\$0.4 million; partially offset by increase in sales and marketing expenses of S\$0.1 million.

Administrative expenses

Administrative expenses increased by S\$0.2 million, or 1.0% to S\$15.3 million in 1H2020. The increase was mainly due to consolidation of subsidiaries incorporated in second half of 2019 of S\$0.5 million, increase in professional fee of S\$0.3 million mainly attributable to legal and professional fee for banking facility and increase in depreciation of right-of-use assets of S\$0.2 million; partially offset by decrease in personnel expenses of S\$0.6 million from receipt of government grants and decrease in travelling expenses of S\$0.1 million caused by closure of international borders.

Other operating expenses

Other operating expenses decreased by S\$0.5 million or 68.9% to S\$0.2 million for 1H2020. The decrease was mainly due to absence of net foreign exchange loss amounting to S\$0.3 million and decrease in inventories written off of S\$0.2 million.

Finance costs

Finance costs increased by S\$0.1 million, or 17.5% to S\$1.0 million for 1H2020, which was mainly due to an increase in bank borrowings.

Income tax expense

Income tax expense increased by S\$1.2 million, or 44.4% to S\$3.8 million for 1H2020, mainly due to higher taxable profits in 1H2020.

Property, plant and equipment

Property, plant and equipment increased by S\$9.6 million, or 21.7% as at 30 June 2020. The increase was mainly due to recognition of construction costs incurred of S\$9.7 million for the construction of hydropower plant in Indonesia, purchase of plant and machinery of S\$1.1 million and recognition of right-of-use assets of S\$0.6 million. This was partially offset by the depreciation charge of S\$1.9 million.

Associates

Interests in associates decreased by S\$0.2 million, or 4.3% as at 30 June 2020 mainly due to disposal of interest in SPHP Co., Pte. Ltd. (“SPHP”) amounting to S\$0.7 million offset by share of profit of associates of S\$0.5 million in 1H2020.

Service concession receivables

Service concession receivables increased by S\$20.2 million, or 59.0% to S\$54.5 million as at 30 June 2020. This was mainly due to recognition of construction revenue of S\$20.1 million from the construction of mini-hydropower plants under the service concession arrangement and foreign exchange revaluation gains of S\$0.1 million. Service concessions receivables are classified as long-term assets which will be collected across the tenure of the various operational concessions in tandem with agreed power supply agreements.

Inventories

Inventories increased by S\$11.5 million or 21.7% to S\$64.7 million as at 30 June 2020 primarily due to the fulfilment of customer orders for second half of 2020.

Trade and other receivables

Trade and other receivables decreased by S\$8.6 million or 7.7% to S\$103.3 million as at 30 June 2020 mainly due to decrease in notes receivables of S\$6.1 million, decrease in advance payment to suppliers of S\$6.0 million, decrease in loan to associates of S\$3.4 million which is mainly due to repayment of loan from SPHP and decrease in other receivables of S\$1.9 million. This was partly offset by the increase in trade receivables from third parties, associates and related parties of S\$7.5 million, S\$0.3 million and S\$0.7 million respectively arising from the increase in period end billing to customers and increase in deposits of S\$0.2 million.

Trade and other payables

Trade and other payables increased by S\$17.0 million or 28.0% to S\$77.8 million as at 30 June 2020, which was mainly due to increase in trade payables of S\$6.0 million arose from increase in trade purchase during the financial period and increase in accrual of construction cost relating to construction of mini-hydropower plants of S\$11.6 million. This was partly offset by the decrease in accrued operating expenses of S\$0.1 million and decrease in accrued staff costs of S\$0.5 million.

Bank borrowings (current and non-current)

Bank borrowings increased by S\$8.4 million or 31.0% to S\$35.7 million as at 30 June 2020. The increase was primarily due to proceeds of bank borrowings of S\$19.7 million offset by repayment of bank borrowings of S\$11.3 million.

MATERIAL ACQUISITION AND DISPOSAL AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 2 June 2020, an indirect wholly owned subsidiary of the Company had disposed of 330,000 ordinary shares representing 33% of the entire issued and paid-up share capital in SPHP. For more information, please refer to the Company’s announcement entitled “Disposal of 33% of the entire issued and paid-up share capital of SPHP Co., PTE. LTD.” dated 3 June 2020.

LIQUIDITY AND FINANCIAL RESOURCES

During the financial period ended 30 June 2020, the Group's working capital was financed by both internal resources and bank borrowings. As at 30 June 2020, cash and bank balances amounted to approximately S\$52.1 million, which increased by approximately 37.2% as compared to S\$38.0 million as at 31 December 2019. The quick ratio of the Group was approximately 1.3 times (31 December 2019: 1.6 times).

As at 30 June 2020, the Group has long and short-term bank borrowings of approximately S\$35.7 million. Among the borrowings, the bank borrowings due within one year amounted to approximately S\$18.9 million (31 December 2019: S\$20.2 million) while the bank borrowings due after one year amounted to approximately S\$16.8 million (31 December 2019: S\$7.1 million).

As at 30 June 2020, the weighted average effective interest rates on bank borrowings is 2.51% (31 December 2019: 6.62%) per annum. The Group does not have fixed rate bank borrowings as at 30 June 2020 and 31 December 2019. Together with the obligation under finance leases of approximately S\$0.2 million (31 December 2019: S\$0.2 million), the Group's total borrowings amounted to S\$35.9 million (31 December 2019: S\$27.5 million).

GEARING RATIO

During the financial period ended 30 June 2020, the gearing ratio of the Group was about 21.9% (2019: 19.4%) which was calculated on the Group's total borrowing (including total borrowing and finance lease but excluding trade and other payables) to total shareholders' equity (excluding non-controlling interests).

The increase in gearing ratio was mainly due to the increase in bank borrowings.

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the six months ended 30 June 2020. The Group strives to reduce credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. In the event of capital need, the Group may borrow funds from banks in the currency that coincident with the functional currency of the subsidiary as a natural hedge against foreign exchange fluctuation. During the six months ended 30 June 2020, the Group did not enter into any hedges in respect of the interest rate risk we are exposed to.

FOREIGN EXCHANGE EXPOSURE

The Group's foreign currency transactions are mainly denominated in RMB and USD. The Group has currency exposure as certain sourced parts and components incurred in the Mainland China were denominated in RMB. Certain of the subsidiaries of the Company have their assets and liabilities denominated in RMB and other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in RMB. During the financial period ended 30 June 2020, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

CAPITAL EXPENDITURES

During the financial period ended 30 June 2020, the Group's capital expenditure consists of additions to property, plant and equipment and construction in process amounting to approximately S\$1,076,000 (2019: S\$1,594,000).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, there were 913 (2019: 916) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance.

The Company adopted ISDN share option scheme 2016 and ISDN performance share plan as incentives to the Directors and other eligible participants. The Group also provides and arranges on-the-job training for the employees.

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries and associates, the Group did not hold any significant investment in equity interest in any other company during the financial period ended 30 June 2020.

RISK MANAGEMENT

Contingent Liabilities

The Group did not have any significant contingent liabilities or outstanding guarantees in respect of payment obligations to any third parties as at 30 June 2020.

Charge on the Group's Assets

As at 30 June 2020, the Group's cash and cash equivalents, net book value of property, plant and equipment of approximately S\$3.1 million and S\$19.6 million, respectively (2019: S\$2.5 million and S\$19.9 million) were pledged to banks to secure general banking facilities granted to the Group.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES AND CANCELLATION OF TREASURY SHARES

During the financial period ended 30 June 2020 and up to the date of this announcement, the Company did not redeem any of its securities listed on the Main Board of the Stock Exchange and SGX-ST, neither did the Company nor any of its subsidiaries purchase or sell any of the Company's listed securities.

PROPOSED INTERIM DIVIDEND

The Board has declared an interim dividend of 1.13 Hong Kong cents per share (2019: Nil) for the year ending 31 December 2020. The interim dividend will be payable in cash on 29 October 2020 to Shareholders whose names appear on the Register of Members of the Company at the close of business on 11 September 2020.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 12 September 2020 to 15 September 2020 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, not later than 4:30 p.m. on 11 September 2020.

CORPORATE GOVERNANCE

The Group has applied the principles and the extent of compliance with the guidelines as set out in the Singapore Revised Code of Corporate Governance 2018 (the “**Code**”) and the applicable code provisions of the Corporate Governance Code (the “**HK CG Code**”) as set out in Appendix 14 to the Hong Kong Listing Rules to provide the structure through which the objectives of protection of Shareholders’ interest and enhancement of long term Shareholders’ value are met. In the event of any conflict between the Code and the HK CG Code, the Group will comply with the more onerous provisions. Throughout the period ended 30 June 2020, the Group has complied with the Code and the HK CG Code.

COMPLIANCE WITH SINGAPORE LISTING MANUAL AND HONG KONG MODEL CODE

In compliance with Rules 1207(19) of the Listing Manual (the “**Singapore Listing Manual**”) of the SGX-ST and the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules (the “**Model Code**”), the Company has adopted its own internal compliance code pursuant to the SGX-ST’s and the Model Code’s best practices on dealings in securities and these are applicable to all officers in relation to their dealings in the Company’s securities. In furtherance, specific enquiry has been made with all the Directors and the Directors have confirmed that they have complied with the Model Code during the financial period ended 30 June 2020.

The Company and its officers are not allowed to deal in the shares during the period commencing 30 days immediately before the announcement of the Company’s half-year results and 60 days immediately before the announcement of the Company’s full year results, and ending on the date of the announcement of the relevant results.

The Directors, management and executives of the Group are also expected to observe relevant insider trading laws at all times, even when dealing in securities within permitted trading period or they are in possession of unpublished price-sensitive information of the Company and they are not to deal in the Company’s securities on short-term considerations.

AUDIT COMMITTEE

The Audit Committee with written terms of reference which deal clearly with its authority and duties, which was revised on 1 January 2019. Amongst the Audit Committee’s principal duties is to review and supervise the Company’s financial reporting process and internal controls.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Lim Siang Kai, Mr. Soh Beng Keng and Mr. Tan Soon Liang. Mr. Lim Siang Kai is the chairman of the Audit Committee.

The financial information in this announcement has not been audited or reviewed by the auditor of the Company, but the Audit Committee has reviewed the unaudited consolidated results of the Group for the financial period ended 30 June 2020 and is of the opinion that such results complied with the applicable accounting standards, the requirements under Singapore Listing Manual and the Hong Kong Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

PUBLICATION OF FINANCIAL INFORMATION

The interim results announcement for the financial period ended 30 June 2020 is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.isdnholdings.com). The interim report of the Company for the period ended 30 June 2020 containing, among others, the interim financial information of the Group will be despatched to Shareholders and published on the above websites in due course.

By order of the Board
ISDN HOLDINGS LIMITED
Mr. Teo Cher Koon
President and Managing Director

Singapore, 7 August 2020

As at the date of this announcement, the Board comprises Mr. Teo Cher Koon and Mr. Kong Deyang as executive Directors; Mr. Toh Hsiang-Wen Keith as non-executive Director; and Mr. Lim Siang Kai (Chairman), Mr. Soh Beng Keng and Mr. Tan Soon Liang as independent non-executive Directors.