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 2019

FINANCIAL HIGHLIGHTS

	For the six months ended		
	2019	2018	% Change
	S$'000	S$'000	
Revenue	**146,963**	162,104	(9.3%)
Gross Profit	**37,399**	41,703	(10.3%)
Profit for the period and attributable to owners of the Company	**5,548**	10,076	(44.9%)
Basic earnings per share (Singapore cents)	**1.35**	2.55	

The Board has resolved to not declare interim dividend for the current period. (2018: 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 2019 (the "**1H2019**"), together with the relevant comparative audited or unaudited figures. The Group's interim results for 1H2019 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 2019

	Note	**2019** **S$'000** **(unaudited)**	2018 S$'000 (unaudited)
REVENUE	*5*	**146,963**	162,104
Cost of sales		**(109,564)**	(120,401)
Gross Profit		**37,399**	41,703
Other operating income	*6*	**2,331**	3,627
Distribution costs		**(12,363)**	(12,066)
Administrative expenses		**(15,179)**	(15,296)
Net impairment gain on financial assets		**82**	-
Other operating expenses		**(794)**	(155)
Finance costs	*7*	**(827)**	(416)
Share of profit of associates		**272**	637
PROFIT BEFORE INCOME TAX	*8*	**10,921**	18,034
Income tax	*9*	**(2,597)**	(4,510)
PROFIT FOR THE PERIOD		**8,324**	13,524
OTHER COMPREHENSIVE INCOME:			
Items that may be subsequently reclassified to profit and loss			
- Net fair value changes on cash flow hedge		**32**	-
- Exchange differences on translation		**(1,094)**	395
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**7,262**	13,919

	Note	2019 S$'000 (unaudited)	2018 S$'000 (unaudited)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		**5,548**	10,076
Non-controlling interests		**2,776**	3,448
		8,324	13,524
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		**4,625**	10,521
Non-controlling interests		**2,637**	3,398
		7,262	13,919
EARNINGS PER SHARE:			
Basic and diluted	*11*	**1.35 cents**	2.55 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Note	**30 June 2019 S$'000 (unaudited)**	31 December 2018 S$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**39,338**	39,314
Investment properties		**489**	497
Land use rights		**1,236**	1,270
Goodwill		**12,227**	12,227
Associates		**5,793**	6,136
Service concession receivables	*12*	**32,576**	30,233
Other financial assets		**900**	-
Deferred tax assets		**143**	139
Total non-current assets		**92,702**	89,816
Current assets			
Inventories		**50,650**	55,183
Trade and other receivables	*12*	**108,299**	96,225
Cash and bank balances		**41,071**	41,877
Total current assets		**200,020**	193,285
Total Assets		**292,722**	283,101

	Note	30 June 2019 S$'000 (unaudited)	31 December 2018 S$'000 (audited)
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share Capital	*13*	**76,381**	70,984
Reserves		**77,392**	72,767
		153,773	143,751
Non-controlling interests		**40,792**	38,457
Total equity		**194,565**	182,208
Non-current liabilities			
Bank borrowings		**11,692**	11,842
Finance leases liabilities		**200**	224
Deferred tax liabilities		**655**	657
Total non-current liabilities		**12,547**	12,723
Current liabilities			
Bank borrowings		**17,950**	16,423
Finance leases liabilities		**63**	81
Trade and other payables	*14*	**66,289**	69,380
Current tax liabilities		**1,308**	2,286
Total current liabilities		**85,610**	88,170
Total liabilities		**98,157**	100,893
Total Equity and Liabilities		**292,722**	283,101

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 Mainboard 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 2019 but are extracted from that report.

The unaudited condensed consolidated interim financial information for the financial period ended 30 June 2019 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.

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 2018.

3. ADOPTION OF NEW OR AMENDED FRS

The Group and 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 2018, except for the adoption of all applicable new and revised SFRS(I) and Interpretations of SFRS(I) ("**INT SFRS(I)**") which became effective from annual periods beginning on or after 1 January 2019.

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 expense. 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 – Motion Control		Other Specialised Engineering Solutions		Industrial Computing Solutions		Others		Elimination		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	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	**112,080**	126,948	**28,848**	31,071	**3,346**	3,179	**2,689**	906	**-**	-	**146,963**	162,104
Inter-segment sales	**7,694**	9,224	**587**	697	**63**	93	**-**	-	**(8,344)**	(10,014)	**-**	-
	119,774	136,172	**29,435**	31,768	**3,409**	3,272	**2,689**	906	**(8,344)**	(10,014)	**146,963**	162,104
Results												
Segment results	**11,077**	15,957	**1,711**	1,964	**538**	110	**(734)**	(130)	**-**	-	**12,592**	17,901
Share of profit of associates	**273**	809	**-**	-	**-**	-	**(1)**	(172)	**-**	-	**272**	637
Corporate expenses											**(1,586)**	(531)
Rental income											**266**	175
Interest income											**204**	268
Finance costs											**(827)**	(416)
Profit before income tax											**10,921**	18,034
Income tax											**(2,597)**	(4,510)
Profit for the six months ended 30 June											**8,324**	13,524
Assets												
Segment assets	**132,354**	133,491	**39,261**	38,760	**2,915**	2,476	**65,561**	58,981	**(6,949)**	(11,344)	**233,142**	222,364
Goodwill	**2,178**	2,178	**9,508**	9,508	**-**	-	**541**	541	**-**	-	**12,227**	12,227
Associates	**4,923**	5,266	**-**	-	**-**	-	**870**	870	**-**	-	**5,793**	6,136
Investment Properties											**489**	497
Cash and bank balances											**41,071**	41,877
Consolidated total assets as at 30 June/ 31 December											**292,722**	283,101
Liabilities												
Segment liabilities	**47,526**	55,274	**15,701**	14,163	**453**	305	**4,428**	3,007	**(6,949)**	(11,344)	**61,159**	61,405
Bank borrowings and finance leases liabilities											**29,905**	28,570
Income tax liabilities											**1,308**	2,286
Others unallocated corporate liabilities											**5,785**	8,632
Consolidated total liabilities as at 30 June/ 31 December											**98,157**	100,893
Other information												
Capital expenditure on:												
- Property, plant and equipment	**575**	1,188	**970**	487	**2**	-	**47**	6	**-**	-	**1,594**	1,681
Depreciation of												
- Property, plant and equipment	**610**	649	**388**	380	**19**	8	**19**	13	**-**	-	**1,036**	1,050
- investment properties	**8**	19	**-**	-	**-**	-	**-**	-	**-**	-	**8**	19
Other non-cash expenses:												
- amortisation of land use rights	**17**	17	**-**	-	**-**	-	**-**	-	**-**	-	**17**	17
- trade receivables written off	**5**	3	**-**	17	**-**	-	**-**	-	**-**	-	**5**	20
- allowance for inventory obsolescence	**186**	-	**6**	-	**-**	-	**-**	-	**-**	-	**192**	-
- allowance for impairment of trade receivables	**22**	-	**27**	-	**-**	-	**-**	-	**-**	-	**49**	-
- property, plant and equipment written off	**-**	1	**2**	-	**-**	-	**-**	-	**-**	-	**2**	1
- inventories written off	**219**	90	**8**	-	**-**	-	**-**	-	**-**	-	**227**	90
- write back of allowance for inventory obsolescence	**(295)**	(34)	**-**	-	**-**	-	**-**	-	**-**	-	**(295)**	(34)
- write back of allowance for trade receivables	**(131)**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(131)**	-

(b) Geographical information

The Group operates in three principal geographical areas — Singapore (country of domicile), the People's Republic of China ("**PRC**") 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 as at	
	For the six months ended		30 June	31 December
	2019	2018	2019	2018
	S$'000	S$'000	S$'000	S$'000
Singapore	**21,753**	23,402	**21,820**	18,538
PRC	**103,186**	113,235	**21,855**	22,439
Hong Kong	**2,856**	9,070	**1,139**	993
Malaysia	**5,171**	4,074	**895**	890
Others	**13,997**	12,323	**46,993**	46,956
Total	**146,963**	162,104	**92,702**	89,816

(c) Information about Major Customers

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

5. REVENUE

	For the six months ended	
	2019	2018
	S$'000	S$'000
Engineering Solutions	**144,335**	162,104
Construction Revenue	**2,628**	-
	146,963	162,104

6. OTHER OPERATING INCOME

	For the six months ended	
	2019	2018
	S$'000	S$'000
Interest income		
- Interest on bank deposits	**150**	152
- Interest on loan to an associate	**54**	116
Total interest income on financial assets at amortised cost	**204**	268
Commission income	**433**	520
Foreign exchange gain, net	**-**	818
Gain on disposal of interest in a subsidiary	**-**	180
Gain on disposal of property, plant and equipment, net	**3**	159
Government grants	**103**	92
Miscellaneous income	**627**	975
Operating lease rental income:		
- Investment properties	**27**	17
- Sub-let of office/warehouse premises	**239**	158
Property management income	**178**	80
Technical service income	**222**	326
Write back of allowance of inventory obsolescence	**295**	34
	2,331	3,627

7. FINANCE COSTS

	For the six months ended	
	2019	2018
	S$'000	S$'000
Interest expense on:		
- Bank loans	**767**	365
- Trust receipts	**27**	28
- Finance leases	**5**	9
- Others	**28**	14
	827	416

8. PROFIT BEFORE INCOME TAX

	For the six months ended	
	2019	2018
	S$'000	S$'000
Profit before income tax has been arrived at after charging:		
Amortisation of land use rights	**17**	17
Depreciation of property, plant and equipment		
- Recognised in cost of sales	**191**	190
- Recognised in distribution costs	**95**	124
- Recognised in administrative expenses	**750**	736
	1,036	1,050
Depreciation of investment properties	**8**	19
Other operating expense included:		
- Trade receivables written off	**5**	20
- Allowance for inventories obsolescence	**192**	-
- Inventories written off	**227**	90
- Foreign exchange losses, net	**339**	-
- Property, plant and equipment written off	**2**	1
Operating lease rental expenses	**968**	935

9. INCOME TAX

	For the six months ended	
	2019	2018
	S$'000	S$'000
Current income tax		
- Singapore	**330**	818
- The PRC	**2,303**	2,663
- Outside Singapore and the PRC	**-**	1
- (Over)/under provision in respect of prior year	**(29)**	702
Deferred taxation		
- Withholding tax on the profits of the Group's subsidiaries	**-**	9
- (Over)/under provision in respect of the prior year	**(7)**	317
	2,597	4,510

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 2019 and 2018 is 17%. The corporate tax rate applicable to those entities of the Group incorporated in Malaysia for the periods ended 30 June 2019 and 2018 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 2018-2019.

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

	For the six months ended	
	2019	2018
	S$'000	S$'000
Paid during the financial period:		
Tax exempt (one-tier) final dividend of Singapore 0.7 Singapore cents per share (2018: 0.6 Singapore cents) in respect of the previous year	**-**	2,289

The Board recommended a final tax-exempt dividend of 0.7 Singapore cents (the "**Final Dividend**") (2018: 0.6 Singapore cents) per ordinary share (the "**Share**"), amounting to S$2,952,000 (2018: S$2,289,000) 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 30 April 2019 and will be paid on 28 August 2019 to the eligible Shareholders whose names appeared on the register of members of the Company on 10 July 2019.

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:

	For the six months ended	
	2019	2018
	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	**5,548**	10,076
Weighted average number of ordinary shares for the purpose of basic earnings per share	**410,344,799**	394,684,950

The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the periods ended 30 June 2019 and 2018.

12. TRADE AND OTHER RECEIVABLES

	30 June 2019 S$'000	31 December 2018 S$'000
Non-current:		
Service concession receivables	**32,576**	30,233
Current:		
Trade receivables, net of impairment		
- Note receivables	**5,133**	6,669
- Third parties	**69,774**	61,651
- Associates	**2,688**	2,963
- Related parties	**2,018**	1,727
	79,613	73,010
Other receivables:		
Funding to investee company	**6,129**	5,928
Advances to		
- Suppliers	**11,614**	8,953
- Associates	**106**	144
- Related parties	**581**	522
Deposits	**575**	912
Loan to associates	**353**	353
Promissory note due	**1,163**	1,176
Sundry debtors	**6,916**	4,282
	27,437	22,270
Prepayment	**1,249**	945
	108,299	96,225
	140,875	126,458

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

	30 June 2019 S$'000	31 December 2018 S$'000
Within 30 days	**31,051**	28,419
31 - 90 days	**21,460**	26,695
Over 90 days	**27,102**	17,896
	79,613	73,010

Trade receivables are non-interest bearing and are usually due within 30 - 90 days term. Included in trade receivables as at 30 June 2019 were trade receivables from third parties amounting to S$788,000 (2018: S$781,000), 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 was 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 2019	31 December 2018	**30 June 2019 S$'000**	31 December 2018 S$'000
At the beginning of year	**394,689,186**	394,684,950	**70,984**	70,981
Exercise of warrants	**-**	4,236	**-**	3
Subscription shares issued	**26,987,295**	-	**5,397**	-
At the end of period /year	**421,676,481**	394,689,186	**76,381**	70,984

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 2019 S$'000	31 December 2018 S$'000
Trade payables		
- Notes payables	**590**	-
- Third parties	**24,219**	27,394
- Associates	**39**	72
- Related parties	**5,973**	6,787
Refund liabilities	**141**	141
	30,962	34,394
Other payables:		
Advance received from customers	**11,465**	10,597
Accrued operating expenses	**16,949**	18,889
Amount owing to an associate	**31**	31
Amount owning to non-controlling interests	**1,983**	1,295
Derivatives	**69**	101
Other payables	**4,830**	4,073
	66,289	69,380

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

	30 June 2019 S$'000	31 December 2018 S$'000
Within 30 days	**19,823**	22,220
31 - 90 days	**9,990**	9,474
Over 90 days	**1,149**	2,700
	30,962	34,394

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 2019 up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS

REVIEW

For 1H2019, revenue fell by approximately S$15.1 million, or 9.3% from S$162.1 million for the six months ended 30 June 2018 ("**1H2018**") to S$147.0 million for 1H2019. This was mainly due to the ongoing trade tension and cyclical headwinds in the semiconductor industry.

Gross profit decreased by S$4.3 million, or 10.3% from S$41.7 million for 1H2018 to S$37.4 million for 1H2019. Overall, gross profit margin slid by 0.3 percentage points, from 25.7% to 25.4% for 1H2018 and 1H2019 respectively.

Our business focus continues to be predominantly in the PRC, contributing approximately 70.2% in 1H2019 (1H2018: 69.9%), with Singapore, Hong Kong and Malaysia as other major contributors to our revenue, accounting for 14.8%, 1.9%, and 3.5% respectively for 1H2019 (1H2018: 14.4%, 5.6%, 2.5% respectively). Revenue growth was muted across our major geographies.

Market conditions remained challenging as the ongoing trade war and market uncertainties have affected the growth momentum in China. The Group will continue to diversify its base of customers, end-industries and geographies it operates in, while exploring the latest smart manufacturing solutions as ISDN moves up the value chain.

The Group's core motion control solutions will continue to deliver long-term sustainable growth as more traditional markets embrace high-tech precision control systems and technology for development and modernisation, coupled with the consistent growth in our customer base.

FUTURE PROSPECTS

The Group remains confident in the long-term prospects of its industrial automation business, expecting to ride on the growing demand for motion control solutions in the PRC as the country vies for greater dominance in the global manufacturing industry[1]. According to Frost & Sullivan, the PRC's motion control solutions market is estimated to grow at a compound annual growth rate (CAGR) of 7.9% between 2015 and 2020, reaching S$3.76 billion in 2020[2], boding well for ISDN's range of engineering solutions. The PRC's ambitious plan to upgrade its overall manufacturing capabilities has seen its investment in smart manufacturing rise 46% to Renminbi ("**RMB**") 69.6 billion (USD10.1 billion) in 2018 according to research firm Marketing Intelligence Resource[3]. Smart manufacturing employs robotics, automation and other technologies to increase productivity and cut labour costs, with Beijing envisioning the growth of domestically-made industrial robots to grow to 70% by 2025 from about 30% in 2017[4].

Be that as it may the market condition in the medium-term remains challenging with the ongoing trade tensions and cyclical headwinds in the semiconductor segment. To mitigate the medium-term impact of softer market demand and to build a long-term growth roadmap, the Group adopts a diversification strategy through (1) broadening its base of customers end-markets, geographies and solutions in its growing core motion control business; and (2) carving out additional revenue pipeline through its renewable energy investments. The Group also continues to climb the value chain through integrating more value-added engineering solutions in its offering mix.

[1]The Diplomat: Made in China 2025, Explained https://thediplomat.com/2019/02/made-in-china-2025-explained/
[2] Frost & Sullivan: Independent Market Research Report for ISDN
[3 & 4] Nikkei Asian Review: China's tech surges as it strives to be robotics superpower
https://asia.nikkei.com/Business/China-tech/China-s-tech-spending-surges-as-it-strives-to-be-robotics-superpower

FUTURE PROSPECTS (CONT'D)

Looking to penetrate Asia's renewable energy sector, the Group is on track to begin production for its first two mini-hydropower plants in the second half of 2019 and the third to start in FY2020, bringing the total capacity to 24.2 megawatts of power. All three are located in North Sumatra, Indonesia; with the Group looking to develop a further 60 megawatts of capacity post-completion. ISDN's push towards renewable energy rides on Asia's, and specifically Indonesia's growing need for renewable energy. According to the 2019 Hydropower Status Report by the International Hydropower Association, Indonesia targets for new and renewable energy mix to make up at least 23% and 31% of the national energy mix in 2025 and 2050 respectively[5]. Financial contributions are expected to be more meaningful once the hydropower plants are commercially operational, with the Group already recognising S$2.6 million in revenue from the construction of these plants for 1H2019.

Against the backdrop of medium-term volatilities but long-term good prospects for industrial automation, the Group continuously monitors the situation to stay abreast of any new developments. Nonetheless, consistent with past experience, the Group will continue to focus on industrial diversification to drive revenue and earnings growth, intensify efforts to move up the value chain, and deepen presence in core Asian markets as industrial automation is increasingly embraced.

FINANCIAL REVIEW

Revenue and Gross Profit Margin

	1H2019 S$'000	1H2018 S$'000	% change +/(-)
Engineering Solutions			
Revenue	**144,335**	162,104	-11.0%
Gross profit	**37,204**	41,703	-10.8%
Gross profit margin	**25.8%**	25.7%	0.1 ppt
Construction Revenue			
Revenue	**2,628**	-	n.m.
Gross profit	**195**	-	n.m.
Gross profit margin	**7.4%**	-	n.m.
TOTAL			
Revenue	**146,963**	162,104	-9.3%
Gross profit	**37,399**	41,703	-10.3%
Gross profit margin	**25.4%**	25.7%	-0.3 ppt

The Group's revenue for the 1H2019 of S$147.0 million was lower as compared to the corresponding period in 2018. In 1H2019, the Group recognised construction revenue of approximately S$2.6 million arising from the construction of mini-hydropower plants in Indonesia. The core motion control solutions segment continued to be a key revenue generator accounting for approximately 98.2% of the Group's total revenue for the 1H2019.

Overall, revenue was lower across the majority of our geographical markets, mainly due to headwinds from global trade tensions and semiconductor sector cyclicality. In the face of these headwinds, the Group is anchored by a diversified base of approximately 10,000 customers spread across aerospace, medical, transportation, telecommunications and other various industries, together with a diversified product mix from over 500 technology partners, providing more core value-added engineering solutions to our customers.

[5] International Hydropower Association: 2019 Hydropower Status Report https://www.hydropower.org/status2019

Revenue and Gross Profit Margin (Cont'd)

Gross profit of S$37.4 million was S$4.3 million, or 10.3% lower in 1H2019 as compared to 1H2018. Overall, the gross profit margin edged down slightly in 1H2019 as compared to the corresponding period in 2018 by 0.3 percentage point from 25.7% to 25.4%. 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 25.8% in 1H2019 which is slightly higher than corresponding period last year.

Market conditions remain uncertain and the Group has adopted a cautious posture with suppliers and customers to stay closely informed and to manage revenue and expenses prudently. However, while managing current market conditions cautiously, the Group continues its long-term programs of industrial diversification to drive revenue and earnings growth, and technology growth to deepen its capabilities and presence in core Asian markets as industrial automation is increasingly embraced.

Other operating income

Other operating income decreased by S$1.3 million, or 35.7% to S$2.3 million for 1H2019. The decrease was mainly due to absence of net foreign exchange gain of S$0.8 million, absence of one-off gain on disposal of subsidiaries of S$0.2 million, decrease in gain on disposal of property, plant and equipment of S$0.2 million, decrease in commission income of S$0.1 million, lower interest income of S$0.1 million and lower technical consultancy fees of S$0.1 million; partially offset by write back of allowance for inventory obsolescence of S$0.3 million and write back of allowance for trade receivables of S$0.1 million.

Distribution costs

Distribution costs increased by S$0.3 million, or 2.5% to S$12.4 million in 1H2019 mainly due to increased investment in regional marketing efforts.

Administrative expenses

The administrative expenses remained relatively stable for 1H2019 as compared with 1H2018.

Other operating expenses

Other operating expenses increased by S$0.6 million for 1H2019. The increase was mainly due to increase in net foreign exchange loss arose from devaluation of United States Dollar ("**USD**") against the Singapore Dollar, thus resulting in an unrealised exchange loss upon revaluation of USD receivables and the increase in allowance for inventories obsolescence.

Finance costs

Finance costs increased by S$0.4 million, or 98.8% to S$0.8 million for 1H2019, which was mainly due to an increase in bank borrowings.

Income tax expense

Income tax expense decreased by S$1.9 million, or 42.4% to S$2.6 million for 1H2019, mainly due to lower taxable profits in 1H2019.

Associates

Interests in associates decreased by S$0.3 million, or 5.6% as at 30 June 2019 mainly due to declaration of dividends from associates of S$0.7 million of which S$0.2 million was received during the reporting period offset by share of associates' results of S$0.3 million in 1H2019.

Service concession receivables

Service concession receivables increased by S$2.3 million, or 7.7% to S$32.6 million as at 30 June 2019. This was mainly due to recognition of construction revenue of S$2.6 million from the construction of mini-hydropower plants under the service concession arrangement offset by foreign exchange revaluation losses of S$0.3 million.

Other financial assets

Other financial assets increased by S$0.9 million was mainly due to the investment of 10% on unquoted equity interest in a company which specialises in the design, development, integration and sales of lithium battery management systems. The investment aligns well with the Company's diversification strategy involving renewable energy ventures.

Inventories

Inventories decreased by S$4.5 million or 8.2% to S$50.7 million as at 30 June 2019 primarily due to the fulfilment of customer orders during the financial period.

Trade and other receivables

Trade and other receivables increased by S$12.1 million or 12.5% to S$108.3 million as at 30 June 2019 mainly due to an increase in trade receivables from third parties of S$8.1 million arose from the increase in period end billing to customers, coupled with an increase in advance payment to suppliers of S$2.7 million and increase in other receivables of S$2.6 million. This was partly offset by the decrease in notes receivables of S$1.5 million.

Trade and other payables

Trade and other payables decreased by S$3.1 million or 4.5% to S$66.3 million as at 30 June 2019, which was mainly due to decrease in trade payables of S$3.4 million arose from payment to trade suppliers as they became due and decrease in accrued staff costs of S$0.7 million. This was offset by the increase in advance received from customers of S$0.9 million.

Bank borrowings

Bank borrowings increased by S$1.4 million to S$29.6 million as at 30 June 2019. The increase was primarily due to proceeds of bank borrowings of S$13.6 million offset by repayment of bank borrowings amounting to S$12.2 million.

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

There were no material acquisitions and disposals in 1H2019.

LIQUIDITY AND FINANCIAL RESOURCES

During the financial period ended 30 June 2019, the Group's working capital was financed by both internal resources and bank borrowings. As at 30 June 2019, cash and bank balances amounted to approximately S$41.1 million, which decreased by approximately 1.9% as compared to S$41.9 million as at 31 December 2018. The quick ratio of the Group was approximately 1.7 times (31 December 2018: 1.6 times).

As at 30 June 2019, the Group has long and short-term bank borrowings of approximately S$29.6 million. Among the borrowings, the bank borrowings due within one year amounted to approximately S$17.9 million (31 December 2018: S$16.4 million) while the bank borrowings due after one year amounted to approximately S$11.7 million (31 December 2018: S$11.9 million).

As at 30 June 2019, the weighted average effective interest rates on bank borrowings is 3.74% (31 December 2018: 4.18%) per annum. The Group does not have fixed rate bank borrowings as at 30 June 2019 and 31 December 2018. Together with the obligation under finance leases of approximately S$0.3 million (31 December 2018: S$0.3 million), the Group's total borrowings amounted to S$29.9 million (31 December 2018: S$28.6 million).

GEARING RATIO

During the financial period ended 30 June 2019, the gearing ratio of the Group was about 19.4% (2018: 19.9%) 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 decrease in gearing ratio was mainly due to the increase in equity excluding non-controlling interests.

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the six months ended 30 June 2019. 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, we may borrow funds from banks in the currency that coincident the functional currency of the subsidiary as a natural hedge against foreign exchange fluctuation. We 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 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 2019, 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 2019, the Group's capital expenditure consists of additions to property, plant and equipment and construction in process amounting to approximately S$1,594,000 (2018: S$1,681,000).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, there were 916 (2018: 868) 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 2019.

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 2019.

Charge on the Group's Assets

As at 30 June 2019, assets of the Group totalling S$22.4 million (2018: S$23.0 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 2019 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 resolved not to declare any interim dividend for the financial period ended 30 June 2019 (2018: Nil).

CORPORATE GOVERNANCE

The Group has applied the principles and the extent of compliance with the guidelines as set out in the Singapore Code of Corporate Governance 2012 (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 2019, 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 its officers in relation to their dealings in the Company's securities. In furtherance, specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the financial period ended 30 June 2019.

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 quarterly 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 2019 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 2019 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 2019 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 2019

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