MOBI Development Co., Ltd.
摩比發展有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 947)

Announcement of Interim Results for the six months ended 30 June 2019

- Revenue decreased to approximately RMB583.6 million, representing a decrease of approximately 2.0%.
- Gross profit margin increased from approximately 22.1% in the first half of 2018 to approximately 24.4% in the first half of 2019.
- Profit attributable to owners of the Company was approximately RMB13.92 million representing an increase of approximately 87.9%.
- Basic earnings per share for the six months ended 30 June 2019 was approximately RMB1.70 cents.

The board (the "Board") of directors (the "Directors") of MOBI Development Co., Ltd. (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2019

	Notes	For the six months ended 30 June 2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Revenue	3	**583,632**	595,766
Cost of sales		**(441,419)**	(463,854)
Gross profit		**142,213**	131,912
Other income and expenses	3	**17,357**	15,736
Research and development costs		**(45,567)**	(45,379)
Distribution and selling expenses		**(44,928)**	(40,231)
Administrative expenses		**(50,467)**	(46,194)
Finance costs	4	**(6,079)**	(7,739)
Share of losses of associates		**(192)**	(345)
Profit before taxation		**12,337**	7,760
Income tax credit (expenses)	5	**1,579**	(351)
Profit and the total comprehensive income for the period attributable to owners of the company	6	**13,916**	7,409
Earnings per share			
– basic (RMB cents)	8	**1.70**	0.90
– diluted (RMB cents)	8	**1.70**	0.90

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	**30 June 2019 (Unaudited) RMB'000**	31 December 2018 (Audited) RMB'000
Non-current assets			
Property, plant and equipment		**413,858**	392,348
Deposits for purchase of plant and equipment		**6,185**	6,270
Prepaid lease payments		**–**	26,091
Deferred tax assets		**51,899**	50,317
Intangible assets		**64,266**	61,310
Interest in associates		**1,098**	1,290
		537,306	537,626
Current assets			
Inventories		**503,437**	448,692
Trade receivables	9	**526,456**	529,664
Notes receivable		**179,651**	163,125
Income tax recoverable		**2,693**	3,704
Prepayments, deposits and other receivables		**129,838**	151,544
Pledged bank balances		**210,169**	171,744
Bank balances and cash		**169,842**	296,341
		1,722,086	1,764,814
Current liabilities			
Trade payables	10	**537,181**	544,732
Notes payable		**247,672**	258,824
Other payables and accruals		**93,319**	103,586
Contract liabilities		**18,856**	22,939
Bank borrowings		**182,459**	196,800
Lease liabilities		**2,542**	–
Deferred income		**–**	24
		1,082,029	1,126,905

	Notes	**30 June 2019 (Unaudited) RMB'000**	31 December 2018 (Audited) RMB'000
Net current assets		**640,057**	637,909
Total assets less current liabilities		**1,177,363**	1,175,535
Non-current liabilities			
Lease liabilities		**2,331**	–
Deferred income		**12,785**	12,773
		15,116	12,773
Net assets		**1,162,247**	1,162,762
Capital and reserves			
Issued capital		**6**	6
Reserves		**1,162,241**	1,162,756
Equity attributable to owners of the Company		**1,162,247**	1,162,762

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The condensed consolidated interim financial statements does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018.

In the current interim period, the Group has applied, for the first time, the following revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

The directors of the Company anticipate that the impact of the adoption of HKFRS 16 is disclosed below. Except this, the application of the above revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Change in accounting policy for leasing activities – adoption of HKFRS 16, "Leases" ("HKFRS 16")

HKFRS 16 replaces HKAS 17 Leases ("HKAS 17"), and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments).

The lease payments are discounted using incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Impact of the adoption of HKFRS 16

The Group's leases are mainly rentals of land, factory and office premises and warehouses. Rental contracts of factory and office premises and warehouses are typically made for fixed periods of 3 years or less and that of the land are typically made for fixed periods of 20 to 30 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

The Group has adopted HKFRS 16 from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach, but has not restated comparative amounts for the year prior to first adoption. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

The Group recognised lease liabilities of RMB2,270,534 and right-of-use assets of RMB29,059,107 at 1 January 2019.

On adoption of HKFRS 16, as a lessee, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6%.

The lease liabilities as at 1 January 2019 are reconciled to the operating lease commitments as at 31 December 2018 as follows:

	RMB'000 (Unaudited)
Operating lease commitments disclosed as at 31 December 2018	6,588
Less: Recognition exemption – short-term leases	(4,191)
Operating lease commitments	2,397
Lease liabilities discounted using relevant incremental borrowing rate as at 1 January 2019	2,271
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	2,271
Analysed as:	
Current lease liabilities	1,008
Non-current lease liabilities	1,263
Total lease liabilities as at 1 January 2019	2,271

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	RMB'000 (Unaudited)
Right-of-use assets relating to operating lease recognised upon application of HKFRS 16 as at 1 January 2019		2,271
Reclassified from prepaid lease payment	(1)	26,758
Amount included under HKFRS 17:		
Restoration and reinstatement costs	(2)	30
Total right-of-use assets as at 1 January 2019		29,059
By class:		
Leasehold land		26,758
Land and buildings		2,301
Total right-of-use assets as at 1 January 2019		29,059

(1) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB667,666 and RMB26,090,906 respectively were reclassified to right-of-use assets.

(2) In relation to the leases of office premise that the Group act as lessee, the carrying amount of the estimated costs of reinstating the rented premises previously include in property, plant and equipment amounting to RMB30,000 as at 1 January 2019 were included as right-of-use assets.

2. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments to report segment information for the six months period ended 30 June 2018 and 2019. Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), being the chief executive officer of the Company, for the purpose of resource allocation and performance assessment. Information reported to the CODM is focused on three principal categories of products - antenna system, base station RF subsystem and coverage extension solution.

No measure of segment assets and liabilities are reported to the CODM for performance assessment and resource allocation. Accordingly, no segment assets and liabilities are presented.

The Group's reportable segments under HKFRS 8 are as follows:

Antenna system - manufacture and sale of antenna system and related products

Base station RF subsystem - manufacture and sale of base station RF subsystem and related products

Coverage extension solution - manufacture and sale of a wide array of coverage products

Information of segment revenues and segment results

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Segment revenues		
Antenna system	**340,982**	378,974
Base station RF subsystem	**205,364**	175,402
Coverage extension solution	**37,286**	41,390
	583,632	595,766
Segment results		
Antenna system	**77,066**	77,903
Base station RF subsystem	**12,768**	(10,144)
Coverage extension solution	**6,812**	18,774
	96,646	86,533
Reconciliation of segment results to profit before taxation:		
Other income and expenses	**17,357**	15,736
Unallocated corporate expenses	**(95,395)**	(86,425)
Finance costs	**(6,079)**	(7,739)
Share of results of associates	**(192)**	(345)
Profit before taxation	**12,337**	7,760

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Other segment information		
Depreciation:		
Antenna system	**5,596**	4,992
Base station RF subsystem	**4,278**	4,477
Coverage extension solution	**565**	239
Segment total	**10,439**	9,708
Unallocated amount	**5,619**	8,197
Group total	**16,058**	17,905
Research and development costs:		
Antenna system	**22,135**	24,263
Base station RF subsystem	**16,987**	19,096
Coverage extension solution	**6,445**	2,020
Group total	**45,567**	45,379

Revenues reported above represent revenues generated from external customers. There are no inter-segment sales during the six months ended 30 June 2018 and 2019.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the annual report of the Company for the year ended 31 December 2018. The Group does not allocate other income and expenses, unallocated corporate expenses, finance costs and share of results of associates to individual reportable segments when making decisions about resources to be allocated to the segments and assessing their performance.

Entity-wide disclosures:

Information about products

Revenues from each group of similar products within the reportable segments are as follows:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Antenna system		
Low-band refarming/IoT antennas	**116,060**	76,973
Multi-band/Multi-system antennas	**110,127**	136,039
WCDMA/FDD-LTE antennas	**58,395**	89,890
TD/TD-LTE antennas	**18,201**	27,611
Microwave antennas	**10,971**	13,691
GSM/CDMA antennas	**7,519**	9,567
PRE5G antennas	**1,103**	518
Other antennas	**18,606**	24,685
	340,982	378,974
Base station RF subsystem		
WCDMA/FDD-LTE RF devices	**122,726**	83,343
Low-band refarming/IoT RF devices	**40,475**	31,096
TD/TD-LTE RF devices	**20,058**	31,860
GSM/CDMA RF devices	**14,978**	27,262
Other devices	**7,127**	1,841
	205,364	175,402
Coverage extension solution		
Aesthetic antennas	**33,981**	34,099
Other products	**3,305**	7,291
	37,286	41,390
	583,632	595,766

Information about major customers

Revenues from customers of the corresponding periods contributing over 10% of the total sales of the Group are as follows:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Customer A[1]	**139,496**	153,787
Customer B[1]	**108,457**	121,571
Customer C[2]	**106,286**	122,164
Customer D[2]	**58,900**	N/A[3]

1 revenue mainly from antenna system and base station RF subsystem
2 revenue mainly from antenna system
3 The corresponding revenue of Customer D did not contribute over 10% of the total revenue of the Group for the six months ended 30 June 2018.

Geographical information

The reportable segments of the Group are mainly operated in the PRC and overseas according to continents distribution. An analysis of the Group's geographical information on revenues attributed to continents on the basis of the customer's location is set out in the following table:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PRC	**399,823**	403,262
Overseas		
Other countries/areas in Asia	**89,274**	92,110
Europe	**76,487**	69,925
Americas	**18,048**	30,469
Subtotal	**183,809**	192,504
	583,632	595,766

All non-current assets (other than deferred tax assets) of the Group are located in the PRC.

3. REVENUE, OTHER INCOME AND EXPENSES

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sale of wireless communication antenna systems, base station RF subsystems and products of coverage extension solution	**583,632**	595,766
Other income and expenses		
Government grants	**10,838**	5,559
Compensation income	**952**	601
Rental income	**4,543**	5,308
Interest income	**3,739**	5,979
Others	**(2,715)**	(1,711)
	17,357	15,736

4. FINANCE COSTS

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank borrowings		
– wholly repayable within five years	**5,983**	7,739
Interest on lease liabilities	**96**	–
	6,079	7,739

5. INCOME TAX CREDIT (EXPENSES)

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PRC income tax	**–**	(672)
Deferred tax	**1,579**	321
	1,579	(351)

The Company was incorporated in the Cayman Islands and is exempted from income tax.

The applicable tax rate of MOBI Technology (Hong Kong) Limited ("MOBI HK") is 16.5% of the estimated assessable profit for both periods.

MOBI Antenna Technologies (Shenzhen) Co., Ltd. ("MOBI Shenzhen") was established in Shenzhen, PRC, with applicable tax rate of 15%.

The applicable tax rate of MOBI Telecommunications Technologies (Ji An) Co., Ltd. ("MOBI Jian") and MOBI Technologies (Xi An) Co., Ltd. ("MOBI Xian") are 15% and 25% for the six months ended 30 June 2019 respectively.

6. PROFIT AND THE TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit and the total comprehensive income for the period has been arrived at after charging (crediting) the following items:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation	**16,058**	17,575
Depreciation of rights-of-use assets	**1,443**	—
Cost of inventories recognised as expenses	**441,418**	463,854
Net exchange loss (gain)	**1,321**	(4,604)

7. DIVIDENDS

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Dividends recognised as distribution during the period:		
2017 final dividend of HKD0.04 per ordinary share	—	27,677
2018 final dividend of HKD0.02 per ordinary share	**14,331**	—
	14,331	27,677

At the Board meeting held on 21 August 2019, the Directors of the Company do not recommend any payment of interim dividend for the six months ended 30 June 2019.

8. EARNINGS PER SHARE

The earning figures for calculation of the basic and diluted earnings per share attributable to the ordinary owners of the Company are based on the following data:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit for the period attributable to owners of the Company and earnings for purpose of basic and diluted earnings per share	**13,916**	7,409

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	Shares'000	Shares'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**820,217**	820,704
Effect of dilutive potential ordinary shares		
– 2013 share options	—	—
– 2015 share options	—	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**820,217**	820,704

The amount of diluted earnings per share for the six months ended 30 June 2018 and 2019 were the same as basic earnings per share as there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2018 and 2019.

9. TRADE RECEIVABLES

The Group offers credit terms generally accepted in the antenna system, base station RF subsystem and coverage extension solution manufacturing industry to its trade customers, which is around 30 to 240 days for a significant number of the Company's products, although a longer credit term may be extended to certain customers, depending on price, the size of the contract, credibility and reputation of the customers. In order to manage the credit risks associated with trade receivables effectively, credit limits of customers are evaluated periodically. Before accepting any new customer, the Group conducts research on the creditworthiness of the new customer and assesses the potential customer's credit quality. Trade receivables that are neither past due nor impaired have the high ranking record attributable to their corresponding research on the creditworthiness.

The following is an aged analysis based on invoice date of trade receivables net of impairment losses at the end of reporting period:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
0 to 30 days	**101,565**	152,331
31 to 60 days	**111,603**	110,780
61 to 90 days	**67,823**	68,429
91 to 120 days	**57,658**	48,616
121 to 180 days	**30,598**	43,516
Over 180 days	**157,209**	105,992
	526,456	529,664

10. TRADE PAYABLES

The following is an aged analysis based on invoice date of trade payables at the end of reporting period:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
0 to 30 days	**81,925**	106,320
31 to 60 days	**123,966**	111,597
61 to 90 days	**86,312**	98,306
91 to 180 days	**161,954**	163,096
Over 180 days	**83,024**	65,413
	537,181	544,732

Typical credit term of trade payables ranges from 60 to 120 days.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Revenue

The Group's unaudited consolidated revenue for the six months ended 30 June 2019 amounted to approximately RMB583.6 million, representing a decrease of approximately 2.0% as compared with approximately RMB595.8 million in the corresponding period of 2018. In which, sales of antenna system products reduced by approximately 10.0% to approximately RMB341.0 million, while sales of coverage extension solution products declined by approximately 9.9% to approximately RMB37.29 million. However, sales of base station RF subsystem products significantly increased by approximately 17.1% to approximately RMB205.4 million. The difference was mainly due to the difference between equipment manufacturer customers and operator customers in the procurement cycle.

Antenna system

The Group's products of antenna system are primarily sold to the domestic network operators and network operators in overseas markets (for example in markets such as Asia, Europe and Americas); whilst a portion of our products of antenna system are sold to operators worldwide by way of network solution provider customers such as ZTE, Nokia and Ericsson.

In the first half of 2019, revenue from sales of antenna system products decreased by approximately 10.0% to approximately RMB341.0 million as compared with the corresponding period of 2018 (1H 2018: approximately RMB379.0 million), mainly due to delay in capital expenditures of domestic operators, decline in investment in 4G network and the sales in emerging markets such as India. In the first half of 2019, revenue from the Group's WCDMA/FDD-LTE antenna declined by approximately 35.0% to approximately RMB58.39 million; TD/TD-LTE antenna decreased by approximately 34.1% to approximately RMB18.20 million as compared with the corresponding period of last year, mainly due to a decline in 4G network investment of domestic operators. In addition, revenue from multi-frequency and multi-system antennas dropped by approximately 19.0% to approximately RMB110.1 million as compared with the corresponding period of 2018, mainly due to global economic fluctuations, and delay in 4G network construction in emerging markets such as India. However, due to network low-band refarming by domestic operators, revenue from low-band refarming/IoT antennas of the Group significantly increased by approximately 50.8% to approximately RMB116.1 million as compared with the corresponding period of 2018. In addition, revenue from PRE5G antennas climbed significantly by approximately 112.7% to approximately RMB1.10 million, as compared with the corresponding period of last year. The Group believes that low-band refarming, Internet of Things, 5G networks and multi-network stations are becoming the trend in networks construction. Therefore, such business developments of the Group mentioned above will help to maintain its competitive advantages in the technology aspect.

There had been periodic fluctuations in purchases by the PRC network operators in prior years, while equipment manufacturers normally purchase RF subsystem products before operators purchase base station antennas. Noting that there was a significant increase in demands for RF subsystem products in the first half of 2019, the Group believes that the demands for base station antennas will increase in the second half of 2019. Moreover, With the continuous progress of network construction, there are more complicated technical requirements and operators' requirements on technologies and reliabilities of antenna systems, as well as accelerated technology update. Therefore, suppliers capable of developing high performance antennas are far fewer than before, which will be more obvious after entry into 5G era. The Group has a long-term technology accumulation and a full product coverage, and has been in the leading position in the industry in the PRC in terms of the development technology and customer testing of new generation high performance antenna, such as 5G antenna and multifrequency multi-system antennas, and has procured substantially all the share of supply from major customers. In addition, the Group continued to actively develop the overseas operator market, and its direct sales to overseas operators are primarily antenna products. Overseas projects are expected to be delivered in the second half of 2019. As such, it is expected that revenue from the antenna system products of the Group will have large potential for growth in the future.

Base station RF subsystem

The Group is a supplier of core RF subsystems for international communication equipment manufacturers, such as ZTE and Nokia, and provides them with a variety of products and solutions, including RF subsystem products. During the six months ended 30 June 2019, revenue from base station RF subsystem products increased by approximately 17.1% to approximately RMB205.4 million as compared with the corresponding period of 2018 (1H 2018: approximately RMB175.4 million), mainly due to an increase in the demand of ZTE and Nokia. The Group believes that base station RF subsystem products would still have continued growth room in the future, which is due to continuous implementation of low-band refarming and commencement of 5G network construction, and continuous implementation of overseas construction of 4G networks.

For the six months ended 30 June 2019, revenue from WCDMA/FDD-LTE RF subsystem products increased significantly by approximately 47.3% to approximately RMB122.7 million as compared with the corresponding period of 2018. While the revenue from low-band refarming/IoT RF subsystem products increased by approximately 30.2% to approximately RMB40.48 million as compared with the corresponding period of 2018. This shows the increase in the capital expenditures of operators for low-band refarming and continuous implementation of global 4G network construction. In addition, revenue from GSM/CDMA and TD/TDLTE RF subsystem products decreased by approximately 45.1% and approximately 37.0% to approximately RMB14.98 million and approximately RMB20.06 million, respectively as compared with the corresponding period of 2018.

In 2019, the Group undertook many research and development projects of the world's main system equipment manufacturers (such as ZTE and Nokia) including 5G RF subsystem products and ceramic dielectric filters, and established industry-university-research cooperation with various colleges, universities and research institutes. Meanwhile, through the product structural optimisation and continuous cost reduction, the Group's gross profit margin picked up steadily. The Group believes that customer diversity, high-end products and enhancement of its status as a core supplier are conducive to increasing the market share and profitability of its RF subsystem in the 5G era.

Coverage extension solution

The Group dedicates to achieve a balanced portfolio of products. In the first half of 2019, revenue from coverage extension solution segment of the Group decreased by approximately 9.9% to approximately RMB37.29 million as compared with the first half of 2018 (1H 2018: RMB41.39 million), mainly due to the influence from delay in capital expenditures of operators and delivery in the first half of 2019. It was expected that projects including aesthetic antennas in respect of which the bids were won and which were started in the first half of 2019 would be completed and delivered in the second half of 2019.

Customers

In the first half of 2019, the low-band refarming in the domestic market brought about opportunities for continuous growth of the Group's businesses. However, revenue from the PRC network operators declined in the first half of 2019, due to continuous decline in capital expenditures for 4G network as domestic operators planned 5G network construction. In which, sales to China Mobile and China Telecom decreased by approximately 13.0% and approximately 41.7% to approximately RMB106.3 million and approximately RMB27.93 million, respectively as compared with the first half of 2018, while sales to China Unicom increased significantly by approximately 91.5% to approximately RMB58.90 million as compared with the first half of 2018. As the 5G commercialization era starts, it is expected that investment of domestic operators in 4G network construction will decline continuously in the second half of 2019, while the focus of construction will be on low-band refarming and certain 5G network investment. At present, the Group actively participated and gained shares in the major demand projects of the major operators.

Affected by the decline in capital expenditure of the PRC operators for 4G network and strategies of separate purchase, the Group's sales to the PRC equipment manufacturer customers decreased by approximately 9.4% to approximately RMB139.5 million in the first half of 2019, accounting for approximately 23.9% of the total revenue in the first half of 2019.

Through the provision of products with a high performance-price ratio and the establishment of long-term strategic cooperative relationships with customers, the cooperation between the Group and equipment manufacturer customers of global network solution was continuously deepened and strengthened, with continuous expansion of product offerings. In spite of the continuous slowdown in the global macro-economy, the Group's sales to international equipment manufacturer customers in the first half of 2019 were approximately RMB131.7 million, basically in line with the corresponding period last year. With its comprehensive advantages in technology and price, the Group is in a leading position in the share of purchases by international equipment manufacturer customers and has untaken research and development projects for many overseas projects, which has laid a solid foundation for growth in the second half of 2019.

In the first half of 2019, the Group's sales to international operators and other international customers increased significantly by approximately 24.0% to approximately RMB113.6 million, and its present period proportion in total revenue increased to approximately 19.5%. The Group has achieved continuous growth in sales to international operators and other international customers for many years, especially in Europe. Meanwhile, apart from the significant year-on-year increase in the business scale of international direct sales, we were also positioned as the core supplier, or even the whole network exclusive antenna supplier, with some European operators.

Gross Profit

The Group's gross profit increased by approximately RMB10.30 million or approximately 7.8% from approximately RMB131.9 million in the first half of 2018 to approximately RMB142.2 million in the first half of 2019.

During the six months ended 30 June 2019, the Group's overall gross profit margin increased to approximately 24.4%, as compared with approximately 22.1% of the corresponding period last year. The Group improved the overall gross profit margin through the constantly optimizing products sales portfolio, increasing the proportion of high-tech products in sales and implementing effective control of internal costs.

Other Income and Expenses

Other income and expenses increased by approximately 10.3% from approximately RMB15.74 million in the first half of 2018 to approximately RMB17.36 million in the first half of 2019, mainly due to an increase in the government subsidies obtained by the Group.

Distribution and Selling Expenses

Distribution and selling expenses increased by approximately 11.7% from approximately RMB40.23 million in the first half of 2018 to approximately RMB44.93 million in the first half of 2019, primarily due to the increase in staff salaries, business expenditures, advertising fees, logistic fees, rents and charges of water and electricity and business meeting expenses.

Administrative Expenses

Administrative expenses increase by approximately 9.3% from approximately RMB46.19 million in the first half of 2018 to approximately RMB50.47 million in the same period of 2019, mainly due to (1) the increase in costs including wages, contributions to the employment security fund for disabled persons, labor union dues, exchange loss and other insurance expenses and (2) the significant increase in expenses such as travel expenses, maintenance costs and environmental protection expenditures.

Research and Development Costs

For the six months ended 30 June 2019, the Group recognised development costs of approximately RMB9.96 million as capitalization expenses. After the capitalization, research and development costs increased by approximately 0.4% from approximately RMB45.38 million in the first half of 2018 to approximately RMB45.57 million in the first half of 2019, which was mainly attributable to adjustment of the research and development personnel structure, and the increase in costs including rents, development materials costs, amortization and depreciation charges on intangible assets.

Finance Costs

Finance costs decreased by approximately 21.4% from approximately RMB7.74 million in the first half of 2018 to approximately RMB6.08 million in the first half of 2019, mainly due to a decrease in the interest expenses arising out of a decline in the amount of borrowings.

Profit before Taxation

Profit before taxation for the first half of 2019 significantly increased by approximately RMB4.62 million, or approximately 60.0%, from approximately RMB7.76 million for the corresponding period in 2018 to approximately RMB12.38 million. Net profit margin before tax charges increased from approximately 1.3% in the first half of 2018 to approximately 2.1% in the first half of 2019.

Income Tax Credit (Expenses)

The Group's income tax expenses decreased from approximately RMB0.35 million in the first half of 2018 to approximately RMB1.58 million in the first half of 2019, mainly because taxes prepaid in prior years were returned in the period. Our effective tax rates calculated from the tax charged to the consolidated statements of comprehensive income over the profit before tax were approximately 4.5% in the first half of 2018 and approximately -12.8% in the first half of 2019, respectively.

Profit for the Reporting Period

Profit for the first half of 2019 significantly increased by approximately 87.9% from approximately RMB7.41 million for the corresponding period in 2018 to approximately RMB13.92 million. The Group's net profit margin was approximately 2.4% for the first half of 2019, as compared with 1.2% for the first half of 2018

FUTURE PROSPECTS

In the future, the Group will further develop both domestic and international markets, and focus on the market of RF technology of wireless communication, especially on the base station RF technology and RF technology for other wireless communications.

Customers

The Group will maintain its focus on global market and provide RF technology solutions to global leading network solution providers and network operators.

The Group is also one of the few one-stop providers in China who can provide RF solutions to international system providers and network operators. Due to keen competitions and the effects of global economic conditions, customers are more concerned of costs, technologies and qualities. Furthermore, international reputable customers require longer turnaround time and very strict certification requirements on their suppliers. By leveraging on its advantages of cost and technology, the Group has established strong relationships with a number of international well-known customers. We believe this can strengthen our competitiveness in the global market to a greater extent. The Group will further improve its development strategy for overseas markets and international business.

In 2019, the Group will continue to optimize the structural adjustments in the domestic operator market, well implement domestic operators' procurement tender while still maintaining close strategic cooperation with China Unicom. The Group also believes that the purchase demand of the PRC network operators in 2019 will be mainly for low-band refarming and certain 5G network construction, which will bring about positive opportunities for the Group's business growth.

In terms of domestic equipment manufacturers, the Group has the advantage of being a leading supplier, including leading advantage in terms of product technology and customer communication. In the construction of 5G network in the domestic market in 2019, the Group believes that operator customers are likely to adopt the packaged delivery model. Therefore, the degree of strategic cooperation with system equipment manufacturers will largely determine the domestic market share of 5G antenna and RF subsystem business, while the Group has significant advantages in these aspects.

As for international equipment manufacturers, in the first half of 2019, the Group continued to maintain an advantageous share. The Group believes that with the implementation of research and development projects for international equipment manufacturers and the progress in the delivery of new products in the second half of the year, there will still be opportunities for continued sales growth.

In addition, in the first half of 2019, the demand for network construction in overseas markets continued to increase. In spite of a delay in network construction in certain emerging markets such as India, the Group achieve a gradual sales growth in the European market through years of efforts and was unanimously recognized and praised by customers. In the long term, the Group still insists on its internationalized market strategies, especially in the multinational operators' markets in Europe, and will continue to develop towards this direction.

The Group is confident in its annual results of operation for 2019.

Products

On 6 June 2019, the Ministry of Industry and Information Technology of China officially issued 5G licenses to four operators, namely China Mobile, China Telecom, China Unicom and China Broadcasting Network, marking 5G commercialization in China. With the early issuance of 5G licenses, China accelerates its 5G progress and see a huge market. Due to the application of Massive MIMO technology, the proportion of base station antennas and RF devices in the investment will be further increased. 5G will bring about a large number of upgrade opportunities, including the demand for construction of a large number of new base stations and reconstruction of roofs of existing base stations. This will increase the demand for high-end antennas and antenna feeder integration. At the same time, 5G RF subsystem will be more complicated, and dielectric filters may become the mainstream solution. The Group believes that the technological threshold of cutting-edge high-end antennas and the innovatory base station RF subsystem technology are beneficial to the Group in competition, while the Company has the research, development and production capability. In general, the Group believes that by virtue of the Group's leading position in technologies of 5G antennas and radio frequency subsystems, the Group is in place to capture early opportunities riding on the network construction of 5G.

Globally, the overseas 4G cycle will last much longer than that in China. Although 5G is coming soon, 4G technology will still be the mainstream in the global network construction for a long time in the future. Further technology upgrading of multi-frequency and multi-system antennas will be provided by overseas LTE network construction and multi-network stations, getting closer to limit design. The Group has been accumulating experience for many years in the technology of multi-frequency and multi-system antennas and established years of in-depth commercial cooperation with global network project suppliers, the Group believes, which enables the Group to accomplish the upgrading of antenna development platform with its capability, catering for the ever-evolving demand for international operators.

For coverage extension products and other products, due to more complicated station sites environment and the continuous increase in the demands of domestic operators for network construction optimization and performance improvement, high-quality aesthetic antennas, PicoCell, smart lamp pole, etc. are expected to be applied more broadly, while the Group boasts leading technology strengths in such areas, continuous investment of relevant research and development resources, as well as products which more fit in with customers' demands, thus enhancing mutual trust with customers. Therefore, the Group believes that with the launch of research and development of new businesses and the implementation of projects, there will be more new opportunities for business growth of the Group.

Conclusion

The Group is one of the few one-stop solution providers of RF technology for global network operators and network solution providers. The Group has a wide range of reputable customers and diversified income sources, which contributes to the positive and stable growth of the Group.

The Group will continue to optimize its customer base and structure, adapt strategies of product differentiation based on the technologies and costs, maximize the market opportunities in LTE, 5G and the next-generation wireless technology. The Group will also strive to enhance its integrated competitiveness to ensure the stable growth of the operating results of the Group and to maximize the returns to its shareholders and the society.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, we have funded our operations and capital requirements from cash generated from our operations, trade credit from our suppliers and short-term bank borrowings. We apply cash primarily in satisfying our increased working capital requirements and capital expenditures on purchases of production equipment in Shenzhen, Ji`an and Xian, China.

As at 30 June 2019, the Group had net current assets of approximately RMB640.2 million (31 December 2018: approximately RMB637.9 million) including inventories of approximately RMB503.4 million (31 December 2018: approximately RMB448.7 million), trade and notes receivables of approximately RMB706.1 million (31 December 2018: approximately RMB692.8 million) and trade and notes payables of approximately RMB784.9 million (31 December 2018: approximately RMB803.6 million).

For the six months ended 30 June 2019, average turnover days of our inventories, trade and notes receivables and trade and notes payables are approximately 195 days (six months ended 30 June 2018: approximately 163 days), 217 days (six months ended 30 June 2018: approximately 248 days) and 326 days (six months ended 30 June 2018: approximately 281 days), respectively. Turnover days are derived by dividing the arithmetic mean of the beginning and ending balances of relevant assets/liabilities classes for the relevant period by sales/cost of sales and multiplying by the number of days in the period. The increased weighting of trade receivables attributable to PRC network operators led to the lengthening of average receivable turnover days. In general, the average credit period for PRC network operators is longer than global network operators and solution providers. We offer credit terms generally accepted in the antennas and base station RF subsystems manufacturing industry to our trade customers.

As at 30 June 2019, the Group pledged bank balance with a value of approximately RMB210.2 million to the bank (31 December 2018: approximately RMB171.7 million), cash and bank balances of approximately RMB169.8 million (31 December 2018: approximately RMB296.3 million) and recorded bank borrowings of approximately RMB182.5 million (31 December 2018: approximately RMB196.8 million). The current ratio (current assets divided by current liabilities) increased to approximately 1.59 times as at 30 June 2019 from approximately 1.57 times as at 31 December 2018. The gearing ratio (bank borrowings divided by total assets) was approximately 8.1% as at 30 June 2019, while the gearing ratio as at 31 December 2018 was approximately 8.5%.

The Board is of the opinion that the Group has a solid and stable financial position and adequate resources to support the necessary operating funding requirements and foreseeable capital expenditures.

FOREIGN EXCHANGE EXPOSURE

Renminbi ("RMB") is the functional currency of the Group. Currencies other than RMB expose the Group to foreign currency risk. We have foreign currency sales and purchases and certain trade receivables and bank balances are denominated in United States dollar ("US$"), Euro ("EUR") and Hong Kong dollars ("HK$"). We currently do not have a foreign currency hedging policy. However, the management monitors and will consider hedging of foreign currency exposure when necessary.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group had approximately 2,889 staff. The total staff costs amounted to approximately RMB133.5 million for the six months ended 30 June 2019. The remuneration of the Group's employees is determined on the basis of their responsibilities and industry practices. Regular training is provided to improve the skills and expertise of relevant staff. The Group also grants share options and discretionary bonuses to eligible staff based on their performance.

CHARGE ON ASSETS

As at 30 June 2019, bank balances of approximately RMB210.2 million were pledged to bank to secure the banking facilities provided to the Group.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 30 June 2019, the Group had contracted for capital commitments relating to acquisition of property, plant and equipment of approximately RMB27.15 million. The Group did not have any significant contingent liabilities.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2019.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019.

CORPORATE GOVERNANCE

The Board has been adamant in upholding high standards of corporate governance to maximize the operational efficiency, corporate values and shareholder returns of the Company. The Company adopted sound governance and disclosure practices and continued to upgrade internal control system, strengthen risk control management and reinforce the corporate governance structure.

The Company has complied with the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") during the six months ended 30 June 2019 except for the deviation of code provision A.2.1.

The code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Currently, Mr. Hu Xiang ("Mr. Hu") is both the Chairman and Chief Executive Officer of the Company. Mr. Hu is one of the founders of the Group and has extensive experience in the telecommunication industry. Given the current stage of development of our Group, the Board believes that vesting the two roles in the same person provides our Company with strong and consistent leadership and facilitates the implementation and execution of our Group's business strategies. We shall nevertheless review the structure from time to time in light of the prevailing circumstances.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

AUDIT COMMITTEE

The Company has set up an audit committee with written terms of reference. The audit committee comprises three independent non-executive Directors. The principal duties of the audit committee include the review and supervision of the Group's financial reporting systems and internal control procedures, review of the Group's financial position and review of the relationship with the external auditor of the Company.

The Group's condensed consolidated interim financial statements for the six months ended 30 June 2019 have been reviewed by the audit committee of the Company, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

PUBLICATION OF INTERIM RESULTS AND 2019 INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.mobi-antenna.com. The 2019 Interim Report of the Company will be available on both websites and dispatched to shareholders in due course.

By order of the Board
MOBI Development Co., Ltd.
Hu Xiang
Chairman

Hong Kong, 21 August 2019

As at the date of this announcement, the executive directors are Mr. HU Xiang and Mr. LIAO Dong; the non-executive director is Mr. QU Deqian; and the independent non-executive directors are Mr. LI Tianshu, Mr. ZHANG Han and Ms. GE Xiaojing.