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CHINA ELECTRONICS HUADA TECHNOLOGY COMPANY LIMITED

中國電子華大科技有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 00085)

2021 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “Board”) of China Electronics Huada Technology Company Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2021	2020
		HK\$'000	HK\$'000
Revenue	3	836,761	716,443
Cost of sales		<u>(581,909)</u>	<u>(462,669)</u>
Gross profit		254,852	253,774
Other income	4	13,490	14,304
Selling and marketing costs		(42,798)	(38,101)
Administrative expenses		(156,249)	(136,555)
Net reversal of impairment losses/(impairment losses) on trade and other receivables		<u>7,159</u>	<u>(7,714)</u>
Operating profit		76,454	85,708
Finance income	5	1,406	1,848
Finance costs	5	(14,281)	(49,161)
Finance costs – net	5	(12,875)	(47,313)
Share of results of associates		<u>(36)</u>	<u>38,229</u>
Profit before taxation	6	63,543	76,624
Taxation	7	(4,498)	(7,863)
Profit for the period		<u>59,045</u>	<u>68,761</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

		Unaudited	
		Six months ended 30 June	
		2021	2020
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to:			
Owners of the Company		59,256	67,547
Non-controlling interests		(211)	1,214
		<u>59,045</u>	<u>68,761</u>
		<i>HK cents</i>	<i>HK cents</i>
Basic earnings per share	9	<u>2.92</u>	<u>3.33</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	59,045	68,761
Other comprehensive income for the period, net of taxation:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements	17,085	(40,650)
Items that will not be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	(4,760)	—
	<hr/>	<hr/>
Total comprehensive income for the period	71,370	28,111
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income for the period attributable to:		
Owners of the Company	71,531	26,593
Non-controlling interests	(161)	1,518
	<hr/>	<hr/>
	71,370	28,111
	<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		44,262	43,784
Right-of-use assets		64,256	63,059
Investment properties		52,424	51,494
Intangible assets		30,901	35,849
Investment in associates		16,083	15,936
Trade and other receivables	10	1,646	1,627
Deferred tax assets		49,124	50,615
		258,696	262,364
Current assets			
Inventories		504,372	500,110
Trade and other receivables	10	802,978	542,355
Financial assets at fair value through profit or loss		10,578	15,403
Short-term deposits		324,488	715,368
Cash and cash equivalents		729,296	465,411
Restricted cash		–	61,228
		2,371,712	2,299,875
Total assets		2,630,408	2,562,239

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	30 June	31 December
	2021	2020
	(Unaudited)	(Audited)
<i>Note</i>	HK\$'000	HK\$'000
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital and premium	825,454	825,454
Reserves	(638,962)	(651,237)
Retained earnings	973,598	914,342
	1,160,090	1,088,559
Non-controlling interests	23,650	23,811
	1,183,740	1,112,370
Liabilities		
Non-current liabilities		
Lease liabilities	36,624	37,935
Trade and other payables	<i>11</i> –	15,936
Deferred tax liabilities	11,365	12,474
	47,989	66,345
Current liabilities		
Deferred government grants	56,886	58,454
Contract liabilities	9,304	11,760
Trade and other payables	<i>11</i> 632,403	559,125
Bank and other borrowings	660,994	712,300
Lease liabilities	39,017	29,132
Income tax payable	75	12,753
	1,398,679	1,383,524
Total liabilities	1,446,668	1,449,869
Total equity and liabilities	2,630,408	2,562,239

Notes:

1 BASIS OF PREPARATION

Compliance with HKFRSs, HKASs, Interpretations and Listing Rules

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

The condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2020, which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and certain financial assets at fair value through profit or loss which are carried at fair value.

2 PRINCIPAL ACCOUNTING POLICIES

Except for the adoption for the first time of all the new or amended HKFRSs and HKASs, and Interpretations issued by the Hong Kong Institute of Certified Public Accountants that are relevant to the Group’s operations and effective for the accounting period beginning on 1 January 2021, the accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those adopted in the consolidated financial statements of the Group for the year ended 31 December 2020.

The adoption of these new or amended standards and interpretations had no material effect on the results and financial position of the Group and/or disclosures set out in the condensed consolidated interim financial statements.

3 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Sale of integrated circuit products	836,761	716,443

All the revenue of the Group is from sale of goods, which is recognised at a point in time when control of the goods is transferred to the customers.

(b) Operating segments

Management has determined the operating segments based on the reports reviewed by the Board (the chief operating decision maker) that are used to assess performance and allocate resources. The Board assesses the performance of an operating segment based on a measure of its operating profit excluding unallocated corporate income and expenses.

The Board considers that the Group's operations are operated and managed as a single segment and accordingly, no operating segment information is presented.

Nearly 100% of the Group's revenue is attributable to the market in the PRC and over 90% of the Group's non-current assets are located in the PRC. No geographical information is therefore presented.

4 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Government grants	2,650	6,633
Exchange gains	–	544
Fair value gains on financial assets at fair value through profit or loss	176	174
Interest income	9,349	4,844
Rental income	1,848	1,225
Others	(533)	884
	13,490	14,304

5 FINANCE COSTS – NET

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Finance costs		
– Interest expense on borrowings	12,934	47,699
– Interest expense on lease liabilities	1,347	1,462
	<u>14,281</u>	<u>49,161</u>
Finance income		
– Interest income	(1,406)	(1,848)
	<u>(1,406)</u>	<u>(1,848)</u>
Finance costs – net	<u>12,875</u>	<u>47,313</u>

6 PROFIT BEFORE TAXATION

The Group's profit before taxation has been arrived at after charging the following:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	4,843	5,508
Depreciation of right-of-use assets	11,076	12,757
Amortisation of intangible assets	12,291	3,470
(Reversal of provision)/provision for inventories	(3,931)	8,871
Rental expenses for short-term leases and leases of low-value asset	5,487	5,334
	<u>5,487</u>	<u>5,334</u>

Research and development costs recognised as expense and charged to administrative expenses for the six months ended 30 June 2021 were HK\$108,036,000 (2020: HK\$90,030,000), and mainly comprised of employee costs of HK\$67,305,000 (2020: HK\$51,452,000) and material costs of HK\$12,140,000 (2020: HK\$16,514,000). No research and development costs were capitalised during the six months ended 30 June 2021 (2020: nil). For the six months ended 30 June 2021, reversal of provision for inventories of HK\$3,931,000 (2020: provision for inventories of HK\$8,871,000) has been credited to/charged to cost of sales.

7 TAXATION

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation		
– PRC corporate income tax	(135)	7,473
– Withholding tax on distributed profits (<i>Note (c)</i>)	<u>3,815</u>	<u>5,113</u>
	<u>3,680</u>	<u>12,586</u>
Deferred taxation		
– PRC corporate income tax	1,991	(2,637)
– Withholding tax on undistributed profits (<i>Note (c)</i>)	<u>(1,173)</u>	<u>(2,086)</u>
	<u>818</u>	<u>(4,723)</u>
	<u><u>4,498</u></u>	<u><u>7,863</u></u>

- (a) No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profit in Hong Kong for the six months ended 30 June 2021 (2020: nil).
- (b) In accordance with the regulations of the corporate income tax laws of the PRC, the applicable statutory tax rate of CEC Huada Electronic Design Co., Ltd (“Huada Electronics”) and Shanghai Huahong Integrated Circuit Co., Ltd (“Huahong”) is 25%. However, Huada Electronics and Huahong qualify as an “Integrated Circuit Design Enterprises in National Planning Layout” for the year ending 31 December 2021 and thus enjoy a 10% preferential tax rate (2020: 10% preferential tax rate).
- (c) According to the relevant regulations of the corporate income tax laws of the PRC, when a foreign investment enterprise in the PRC distributes dividends out of the profits earned from 1 January 2008 onwards to its overseas investors, such dividends are subject to withholding tax at a rate of 10%.

8 DIVIDEND

The Board has resolved not to declare any dividend for the six months ended 30 June 2021 (2020: nil).

9 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	Unaudited	
	Six months ended 30 June	
	2021	2020
Profit for the period attributable to owners of the Company (HK\$'000)	59,256	67,547
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,029,872,000	2,029,872,000
Basic earnings per share (HK cents)	<u>2.92</u>	<u>3.33</u>

No diluted earnings per share is presented as the Company did not have any potential dilutive ordinary share outstanding.

10 TRADE AND OTHER RECEIVABLES

The majority of the Group's sales are with credit terms of 30 days to 135 days. The remaining amounts are due immediately after the delivery of goods. The ageing analysis of the Group's trade receivables (net of loss allowance for impairment) is as follows:

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Current to 30 days	406,543	114,637
31-60 days	95,911	71,648
61-180 days	239,116	250,734
Over 180 days and within 1 year	15,776	49,245
Over 1 year	4,987	21,652
	<u>762,333</u>	<u>507,916</u>

11 TRADE AND OTHER PAYABLES

The ageing analysis of the Group's trade payables is as follows:

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Current to 30 days	134,427	138,695
31-60 days	131,795	62,257
Over 60 days	33,258	83,152
	<u>299,480</u>	<u>284,104</u>

BUSINESS REVIEW

Results overview

Revenue of the Group for the six months ended 30 June 2021 amounted to HK\$836.8 million, representing an increase of 16.8% when comparing with the corresponding period of last year. Profit attributable to owners of the Company amounted to HK\$59.3 million, representing a decrease of 12.3% when comparing with the corresponding period of last year. The basic earnings per share was HK2.92 cents (2020: HK3.33 cents).

Integrated circuits design operation

The Group's integrated circuits design operation comprises the design of security smart card chips and the development of application system. Currently, the Group's products are mainly used in the sectors of identity authentication, financial payment, government utilities and telecommunication. For the six months ended 30 June 2021, the Group obtained 18 new patents, registered 1 new software copyright and 1 new integrated circuits layout design.

In the first half of 2021, with the easing of the COVID-19 pandemic in China, the market demand for some of the Group's major products rebounded when comparing with the corresponding period of last year. Among them, the market demand for domestic-made bank card chips continued to grow as the domestic-made bank card chips' market competitiveness further strengthened, and the sales volume of bank card chips increased when comparing with the corresponding period of last year. With the easing of the COVID-19 pandemic, the market demand for telecommunication card chips rebounded and the sales volume of telecommunication card chips increased when comparing with the corresponding period of last year. During the period, the market demand for third-generation social security cards grew as issuance of the third-generation social security cards had started on a large scale in various provinces/cities nationwide, and the sales volume of social security card chips increased slightly when comparing with the corresponding period of last year. The sales volume of identity authentication products decreased significantly when comparing with the corresponding period of last year due to a change in timing of demand. It is expected that the second half of the year will make up for the demand shortfall in the first half of the year. For the six months ended 30 June 2021, the Group's total sales volume increased by 19.1% when comparing with the corresponding period of last year. The Group's revenue for the six months ended 30 June 2021 was HK\$836.8 million, representing an increase of 16.8% when comparing with the corresponding period of last year.

Overall gross profit margin for the six months ended 30 June 2021 was 30.5%, representing a decrease of 4.9 percentage points when comparing with the corresponding period of last year. The decrease was mainly due to the recorded growth in sales volume during the period was primarily from bank card chips and telecommunication card chips, and telecommunication card chips carry a lower gross profit margin, resulting in a decrease in overall gross profit margin when comparing with the corresponding period of last year.

Selling and marketing costs for the six months ended 30 June 2021 amounted to HK\$42.8 million (2020: HK\$38.1 million). The percentage of selling and marketing costs to revenue was 5.1% (2020: 5.3%). The Group continued to implement stringent cost control measures during the period.

Administrative expenses for the six months ended 30 June 2021 amounted to HK\$156.2 million, representing an increase of 14.4% when comparing with the corresponding period of last year. The percentage of administrative expenses to revenue was 18.7% (2020: 19.1%). The Group continued to implement stringent cost control measures during the period.

Research and development costs for the six months ended 30 June 2021 amounted to HK\$108.0 million (2020: HK\$90.0 million). The percentage of research and development costs to revenue was 12.9% (2020: 12.6%). Research and development of the Group during the period primarily focused on the research and development of security chip products, the continuous improvements in smart card product performance, research in application of security chips in the Internet of Things sector and the Internet of Vehicles sector, and the development of application systems and solutions, etc.

OUTLOOK

Looking ahead, with the further implementation of the application of domestic integrated circuits and the application of the state cryptographic algorithm, as well as the commencement of the 5G application, the rapid development of the application markets for the Internet of Vehicles, Internet of Things, etc. boosting and raising the demand for information security, there will be market opportunities for the Group's business. Due to the continuing tight production capacity of semiconductors around the world, safeguarding production capacities will still be a challenge for the Group's operation in the second half of the year. The Group will continue to closely track domestic market demand, further strengthen close cooperation with suppliers, seize market opportunities and actively engage potential customers to ensure its leading position in the smart card chips sector and to perfect the layout and expansion of the Internet of Vehicles and Internet of Things markets.

DIVIDEND

The Board has resolved not to declare any dividend for the six months ended 30 June 2021 (2020: nil).

FINANCIAL REVIEW

The Group consistently employs a prudent treasury policy and generally finances its working capital and funding requirements through internal resources, and bank and other borrowings. At 30 June 2021, the Group had cash and cash equivalents amounted to HK\$729.3 million, of which 98.5% was denominated in Renminbi, 0.8% in United States dollars and 0.7% in Hong Kong dollars (31 December 2020: HK\$465.4 million, of which 95.3% was denominated in Renminbi, 2.9% in Hong Kong dollars and 1.8% in United States dollars).

At 30 June 2021, the Group had bank and other borrowings of HK\$661.0 million, all having a maturity period of within one year, and all were denominated in Renminbi (31 December 2020: HK\$712.3 million, all having a maturity period of within one year, and all were denominated in Renminbi). Among these borrowings, (i) all were unsecured (31 December 2020: HK\$58.8 million were secured by deposits of the Group and HK\$653.5 million were unsecured), and (ii) all were borrowed at fixed interest rates (31 December 2020: all were borrowed at fixed interest rates). At 30 June 2021, committed borrowing facilities available to the Group but not drawn amounted to HK\$953.1 million.

At 30 June 2021, the Group did not pledge any assets as collateral for its borrowings (31 December 2020: certain assets of the Group with an aggregate carrying value of HK\$59.4 million were pledged as collateral for borrowings of the Group).

The Group's revenue is mainly denominated in Renminbi and payments are denominated in Renminbi and Hong Kong dollars. The Group will make use of hedging contracts, when appropriate, to hedge the risk of foreign exchange fluctuation arising from its operations.

At 30 June 2021, the Group had net current assets of HK\$973.0 million (31 December 2020: HK\$916.4 million). The gearing ratio of the Group is calculated as net debt divided by total equity and net debt of the Group. At 30 June 2021 and 31 December 2020, the Group was in net cash position.

At 30 June 2021, the Group did not have any material outstanding capital commitment for the acquisition of fixed assets and intangible assets (31 December 2020: nil). The Group did not have any material contingent liability at 30 June 2021 (31 December 2020: nil).

EMPLOYEE AND REMUNERATION POLICIES

At 30 June 2021, the Group had approximately 370 employees, the majority of whom were based in the PRC. Employee benefit expenses during the period were HK\$109.9 million.

The Group recognises the importance of high calibre and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration policies are largely in line with industry practices, and are formulated on the basis of performance and experience and will be reviewed regularly. Bonuses and other merit payments are linked with the performance of the Group and of the individuals as incentive to optimise performance.

The Group's employee training is divided into three levels: corporate level, departmental level and individual level. The corporate level trainings focus mainly on cross-departmental and internal all-purpose trainings, such as new employee trainings, and quality and safety requirements trainings. Departmental level trainings focus mainly on enhancing knowledge and skills in departmental professional areas. Trainings for individuals act as a useful supplement to the above two.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares and the Company had not redeemed any of its shares during the six months ended 30 June 2021.

CORPORATE GOVERNANCE CODE

The Company is committed to achieving the best corporate governance practices by emphasising its accountability, transparency, independence, responsibility and fairness. The Company is dedicated to exercise corporate governance through regular reviews of its adopted practices with reference to the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. The Company has complied with all the applicable code provisions in the CG Code throughout the six months ended 30 June 2021.

AUDIT COMMITTEE

The audit committee of the Board has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2021.

PUBLICATION OF INTERIM REPORT

The 2021 interim report will be published on the website of the Company (www.cecht.com.cn) and on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) in due course.

By Order of the Board
China Electronics Huada Technology Company Limited
Xu Haidong
Chairman

Hong Kong, 23 August 2021

As at the date of this announcement, the Board comprises two Non-executive Directors, namely Mr. Xu Haidong (Chairman) and Ms. Liu Jinmei, two Executive Directors, namely Mr. Yu Jian (Deputy Chairman) and Mr. Liu Hongzhou (Managing Director), and three Independent Non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Chow Chan Lum.