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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)

2022 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 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Unaudited Six months ended 30 June	
		2022 HK\$'000	2021 HK\$'000
Revenue	3	1,159,157	836,761
Cost of sales		(692,072)	(581,909)
Gross profit		467,085	254,852
Other income	4	24,880	13,490
Selling and marketing costs		(34,714)	(42,798)
Administrative expenses		(212,592)	(156,249)
(Impairment losses)/net reversal of impairment losses on trade and other receivables		(4,937)	7,159
Operating profit		239,722	76,454
Finance income	5	1,469	1,406
Finance costs	5	(15,223)	(14,281)
Finance costs – net	5	(13,754)	(12,875)
Share of result of an associate		333	(36)
Profit before taxation	6	226,301	63,543
Taxation	7	(24,248)	(4,498)
Profit for the period		202,053	59,045

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (*Continued*)

		Unaudited	
		Six months ended 30 June	
		2022	2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to:			
Owners of the Company		203,191	59,256
Non-controlling interests		(1,138)	(211)
		<u>202,053</u>	<u>59,045</u>
		<i>HK cents</i>	<i>HK cents</i>
Basic earnings per share	9	<u>10.01</u>	<u>2.92</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Profit for the period	202,053	59,045
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	(4,571)	17,085
Items that will not be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	(45,735)	(4,760)
Total comprehensive income for the period	151,747	71,370
Total comprehensive income for the period attributable to:		
Owners of the Company	154,617	71,531
Non-controlling interests	(2,870)	(161)
	151,747	71,370

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2022 (Unaudited) <i>HK\$'000</i>	31 December 2021 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		47,625	51,004
Right-of-use assets		43,760	56,331
Investment properties		51,272	53,491
Intangible assets		38,039	55,947
Investment in associates		16,259	16,669
Trade and other receivables	10	209,853	2,839
Deferred tax assets		66,954	73,561
Time deposits		233,866	244,618
		707,628	554,460
Current assets			
Inventories		596,528	531,651
Trade and other receivables	10	1,103,895	747,651
Financial assets at fair value through profit or loss		10,518	10,886
Cash and cash equivalents		610,045	517,932
Restricted cash		6,995	1,404
Time deposits		420,959	477,006
		2,748,940	2,286,530
Total assets		3,456,568	2,840,990

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*Continued*)

	30 June	31 December
	2022	2021
	(Unaudited)	(Audited)
<i>Note</i>	HK\$'000	HK\$'000
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital and premium	225,454	225,454
Reserves	(441,346)	(392,772)
Retained earnings	1,579,831	1,415,208
	<u>1,363,939</u>	<u>1,247,890</u>
Non-controlling interests	23,237	26,107
	<u>1,387,176</u>	<u>1,273,997</u>
Liabilities		
Non-current liabilities		
Lease liabilities	14,732	27,441
Trade and other payables	11 321,635	7,577
Deferred tax liabilities	16,103	14,915
Contract liabilities	31,178	–
	<u>383,648</u>	<u>49,933</u>
Current liabilities		
Deferred government grants	56,101	59,211
Contract liabilities	58,727	34,968
Trade and other payables	11 896,950	718,651
Bank and other borrowings	643,132	672,701
Lease liabilities	25,153	31,429
Income tax payable	5,681	100
	<u>1,685,744</u>	<u>1,517,060</u>
Total liabilities	2,069,392	1,566,993
	<u>3,456,568</u>	<u>2,840,990</u>
Total equity and liabilities	3,456,568	2,840,990

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 2021, 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 2022, 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 2021.

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	
	2022	2021
	HK\$'000	HK\$'000
Sale of integrated circuit products	<u>1,159,157</u>	<u>836,761</u>

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) Segment information

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	
	2022	2021
	HK\$'000	HK\$'000
Government grants	9,867	2,650
Fair value gains on financial assets at fair value through profit or loss	251	176
Interest income	10,650	9,349
Rental income	1,326	1,848
Others	<u>2,786</u>	<u>(533)</u>
	<u>24,880</u>	<u>13,490</u>

5 FINANCE COSTS – NET

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Finance costs		
– Interest expense on borrowings	13,977	12,934
– Interest expense on lease liabilities	1,246	1,347
	<u>15,223</u>	<u>14,281</u>
Finance income		
– Interest income	(1,469)	(1,406)
	<u>13,754</u>	<u>12,875</u>

6 PROFIT BEFORE TAXATION

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	10,879	4,843
Depreciation of right-of-use assets	12,150	11,076
Amortisation of intangible assets	16,009	12,291
Reversal of provision for inventories	(11,408)	(3,931)
Rental expenses for short-term leases and leases of low-value assets	96	5,487
	<u>96</u>	<u>5,487</u>

Research and development costs recognised as expense and charged to administrative expenses for the six months ended 30 June 2022 were HK\$158,517,000 (2021: HK\$108,036,000), mainly comprised of employee costs of HK\$85,686,000 (2021: HK\$67,305,000) and material costs of HK\$31,151,000 (2021: HK\$12,140,000). No research and development costs were capitalised during the six months ended 30 June 2022 (2021: nil). For the six months ended 30 June 2022, reversal of provision for inventories of HK\$11,408,000 (2021: HK\$3,931,000) has been credited to cost of sales.

7 TAXATION

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Current taxation		
– PRC corporate income tax	12,825	(135)
– Withholding tax on distributed profits (<i>Note (c)</i>)	6,036	3,815
	<u>18,861</u>	<u>3,680</u>
Deferred taxation		
– PRC corporate income tax	3,632	1,991
– Withholding tax on undistributed profits (<i>Note (c)</i>)	1,755	(1,173)
	<u>5,387</u>	<u>818</u>
	<u>24,248</u>	<u>4,498</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 2022 (2021: 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 qualifies as a “High and New Technology Enterprise” and Huahong qualifies as an “Integrated Circuit Design Enterprises in National Planning Layout” and thus have adopted a preferential tax rate of 15% and 10% respectively for the six months ended 30 June 2022 (2021: a preferential tax rate of 15% and 10% respectively).
- (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 2022 (2021: 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	
	2022	2021
Profit for the period attributable to owners of the Company (HK\$'000)	203,191	59,256
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)	10.01	2.92

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 180 days. The remaining sales 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	31 December
	2022	2021
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Current to 30 days	276,970	149,221
31-60 days	215,719	187,225
61-180 days	173,240	190,526
Over 180 days and within 1 year	241	7,398
Over 1 year	1,049	1,914
	667,219	536,284

11 TRADE AND OTHER PAYABLES

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

	30 June	31 December
	2022	2021
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Current to 30 days	371,030	207,890
31-60 days	47,646	110,108
Over 60 days	8,740	89,513
	427,416	407,511

BUSINESS REVIEW

Results overview

Revenue of the Group for the six months ended 30 June 2022 amounted to HK\$1,159.2 million, representing an increase of 38.5% when comparing with the corresponding period of last year. Profit attributable to owners of the Company amounted to HK\$203.2 million, representing an increase of 242.9% when comparing with the corresponding period of last year. The basic earnings per share was HK10.01 cents (2021: HK2.92 cents).

Integrated circuits design operation

The Group's integrated circuits design operation comprises the design of smart cards and security 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, telecommunication, Internet of Things and intelligent connected vehicles. For the six months ended 30 June 2022, the Group obtained 13 new patents, registered 1 new software copyright and 2 new integrated circuits layout designs.

In the first half of 2022, the integrated circuits industry continued to grow steadily. On the one hand, the Group continued to strengthen its efforts in securing production capacity, and on the other hand, it seized the industry opportunities to actively explore new security chip application markets, adjusted the product mix of its smart cards and security chips business and enriched the product portfolio. During the period, the sales volume of bank card chips decreased when comparing with the corresponding period of last year, while the sales volume of SIM card chips decreased slightly when comparing with the corresponding period of last year. On the other hand, with the increase in market demand for information security due to the promotion of 5G network applications, the Group achieved better results in the promotion of the intelligent connected vehicle and Internet of Things security chip application markets. eSIM chips, intelligent connected vehicle secure element chips and high-end SIM chips saw significant growth in market demand and the sales volume increased significantly when comparing with the corresponding period of last year. The third generation social security cards have been issued on a large scale in all provinces and municipalities across the PRC, resulting in an increase in demand for replacement cards and a slight increase in the sales volume of social security card chips when comparing with the corresponding period of last year. The timing of demand for identity authentication products in 2022 has been changed to the second half of 2022, which is expected to make up for the shortfall in demand in the first half of the year. For the six months ended 30 June 2022, the Group's total sales volume increased by 9.7% when comparing with the corresponding period of last year.

Demand for downstream applications in the integrated circuits industry was strong in the first half of 2022. Despite the continued fierce competition in the industry, the supply of smart card chip products fell short of demand due to the continued shortage of integrated circuits production capacity, and the selling prices of the Group's financial EMV card chips for overseas applications, high-end SIM chips and SIM card chips for overseas applications increased when comparing with the corresponding period of last year, coupled with the successful exploration of new markets and optimisation of product mix have led the Group's revenue to grow significantly in the first half of 2022. The Group's revenue for the six months ended 30 June 2022 was HK\$1,159.2 million, representing an increase of 38.5% when comparing with the corresponding period of last year.

Benefiting from higher selling prices of the Group's major products such as overseas application products and Internet of Things secure element chips when comparing with the corresponding period of last year, an optimised product mix and effective cost control, the overall gross profit margin for the six months ended 30 June 2022 increased significantly when comparing with the corresponding period of last year despite intense competition.

Selling and marketing costs for the six months ended 30 June 2022 amounted to HK\$34.7 million, representing a decrease of 18.9% when comparing with the corresponding period of last year. The percentage of selling and marketing costs to revenue decreased to 3.0% from 5.1% of the corresponding period of last year. Impacted by the coronavirus pandemic during the period, the Group made timely adjustments to its marketing approach, resulting in a significant reduction in selling and marketing costs.

Administrative expenses for the six months ended 30 June 2022 amounted to HK\$212.6 million, representing an increase of 36.1% when comparing with the corresponding period of last year. The increase in administrative expenses was primarily due to an increase in research and development costs during the period. The percentage of administrative expenses to revenue was 18.3% (2021: 18.7%). The Group continued to implement stringent cost control measures during the period.

Research and development costs for the six months ended 30 June 2022 amounted to HK\$158.5 million (2021: HK\$108.0 million). The percentage of research and development costs to revenue was 13.7% (2021: 12.9%). Research and development of the Group during the period mainly focused on the research and development of security chip product series, the continuous improvements of the performance of smart card products, research in the application of security chips for the Internet of Things sector and the intelligent connected vehicles sector, as well as the development of application systems and solutions.

OUTLOOK

The production capacity of the domestic integrated circuits industry will remain tight in 2022, and the supply of smart cards and security chips in the second half of the year will be unable to meet the market demand. It is expected that the shortage of production capacity in the integrated circuits industry will ease slightly in the middle of 2023 the earliest. With the continuous enhancement of domestic-made security smart card chips in terms of technology, products' performance and competitiveness, the products gradually enter into the international market. At the same time, with the continuous deepening of emerging applications in areas such as 5G, the intelligent connected vehicles and the Internet of Things raising the demand for security chips continuously in the second half of the year, there will be growth opportunities for the Group's business. The Group will strengthen upstream and downstream cooperation in the industrial chain, continue to focus its resources on promoting the rapid development of its security chip business, strengthen efforts to promote its brand as well as actively engage potential customers, thereby enhancing the Group's core competitiveness in the security chip industry.

DIVIDEND

The Board has resolved not to declare any dividend for the six months ended 30 June 2022 (2021: 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 2022, the Group had cash and cash equivalents amounted to HK\$610.0 million, of which 99.0% was denominated in Renminbi, 0.7% in United States dollars and 0.3% in Hong Kong dollars (31 December 2021: HK\$517.9 million, of which 98.1% was denominated in Renminbi, 1.6% in United States dollars and 0.3% in Hong Kong dollars).

At 30 June 2022, the Group had bank and other borrowings of HK\$643.1 million, all were due within one year, and all were denominated in Renminbi (31 December 2021: HK\$672.7 million, all were due within one year and all were denominated in Renminbi). Among these borrowings, (i) all were unsecured (31 December 2021: all were unsecured), and (ii) all were borrowed at fixed interest rates (31 December 2021: all were borrowed at fixed interest rates). At 30 June 2022, committed borrowing facilities available to the Group but not drawn amounted to HK\$749.4 million.

At 30 June 2022, the Group did not pledge any assets as collateral for its borrowings (31 December 2021: nil).

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 2022, the Group had net current assets of HK\$1,063.2 million (31 December 2021: HK\$769.5 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 2022 and 31 December 2021, the Group was in net cash position.

At 30 June 2022, the Group did not have any material outstanding capital commitment for the acquisition of fixed assets and intangible assets (31 December 2021: nil). The Group did not have any material contingent liability at 30 June 2022 (31 December 2021: nil).

EMPLOYEE AND REMUNERATION POLICIES

At 30 June 2022, the Group had approximately 390 employees, the majority of whom were based in the PRC. Employee benefit expenses during the period were HK\$135.4 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 training focuses mainly on cross-departmental and internal all-purpose trainings, such as new employee trainings, and quality and safety requirements trainings. Departmental level training focuses mainly on enhancing knowledge and skills in departmental professional areas. Trainings for individuals act as a useful supplement to the two types of training above.

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 2022.

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 2022.

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 2022.

PUBLICATION OF INTERIM REPORT

The 2022 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, 30 August 2022

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. Liu Hongzhou (Deputy Chairman and Managing Director) and Mr. Chang Feng, and three Independent Non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Chow Chan Lum.