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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)

2024 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 2024 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited	
		Six months ended 30 June	
		2024	2023
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	1,360,635	1,807,007
Cost of sales		<u>(793,267)</u>	<u>(966,340)</u>
Gross profit		567,368	840,667
Other income – net	4	52,327	31,142
Selling and marketing costs		(26,815)	(26,116)
Administrative expenses		(238,040)	(207,794)
Impairment losses on trade and other receivables		(271)	(1,284)
Operating profit		354,569	636,615
Finance income	5	8,602	9,524
Finance costs	5	(19,530)	(21,736)
Finance costs – net	5	(10,928)	(12,212)
Share of result of an associate		(626)	279
Profit before taxation	6	343,015	624,682
Taxation	7	(34,243)	(73,316)
Profit for the period		308,772	551,366

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

		Unaudited	
		Six months ended 30 June	
		2024	2023
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to:			
	Owners of the Company	309,545	552,885
	Non-controlling interests	<u>(773)</u>	<u>(1,519)</u>
		<u>308,772</u>	<u>551,366</u>
		<i>HK cents</i>	<i>HK cents</i>
	Basic earnings per share	<u>15.25</u>	<u>27.24</u>
		9	

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	308,772	551,366
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	(12,116)	(19,918)
Items that will not be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	(3,528)	(54,284)
	<hr/>	<hr/>
Total comprehensive income for the period	293,128	477,164
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Total comprehensive income for the period attributable to:		
Owners of the Company	294,066	478,441
Non-controlling interests	(938)	(1,277)
	<hr/>	<hr/>
	293,128	477,164
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2024 (Unaudited) <i>HK\$'000</i>	31 December 2023 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		47,344	37,146
Right-of-use assets		53,013	10,212
Investment properties		42,883	48,556
Intangible assets		51,038	64,641
Investment in associates		15,478	16,216
Trade and other receivables	10	106,316	157,813
Deferred tax assets		70,519	71,389
Time deposits		810,799	706,230
		1,197,390	1,112,203
Current assets			
Inventories		712,178	848,621
Trade and other receivables	10	738,861	574,285
Restricted cash		2	1
Time deposits		434,435	684,161
Cash and cash equivalents		1,375,327	1,107,515
		3,260,803	3,214,583
Total assets		4,458,193	4,326,786

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*Continued*)

		30 June	31 December
		2024	2023
		(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		(968,582)	(739,966)
Retained earnings		<u>2,942,615</u>	<u>2,633,070</u>
		2,199,487	2,118,558
Non-controlling interests		<u>26,725</u>	<u>27,663</u>
		2,226,212	2,146,221
Liabilities			
Non-current liabilities			
Lease liabilities		24,550	4,459
Trade and other payables	<i>11</i>	90,853	371,171
Deferred tax liabilities		55,234	44,161
Contract liabilities		–	6,123
		<u>170,637</u>	<u>425,914</u>
Current liabilities			
Deferred government grants		44,489	57,472
Contract liabilities		109,239	386,633
Trade and other payables	<i>11</i>	1,393,295	806,139
Bank and other borrowings		493,053	496,568
Lease liabilities		21,230	7,785
Income tax payable		38	54
		<u>2,061,344</u>	<u>1,754,651</u>
Total liabilities		<u>2,231,981</u>	<u>2,180,565</u>
Total equity and liabilities		<u><u>4,458,193</u></u>	<u><u>4,326,786</u></u>

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 all applicable disclosure requirements of Appendix D2 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 2023, 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 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 2024, the accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those adopted in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2023.

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	
	2024	2023
	HK\$'000	HK\$'000
Sale of integrated circuit products and provision of services	<u>1,360,635</u>	<u>1,807,007</u>

Most of 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 segment information is presented.

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

4 OTHER INCOME – NET

	Unaudited	
	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Government grants	36,650	11,317
Interest income	19,652	17,565
Rental income	–	1,242
Others	<u>(3,975)</u>	<u>1,018</u>
	<u>52,327</u>	<u>31,142</u>

5 FINANCE COSTS – NET

	Unaudited	
	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Finance costs		
– Interest expense on borrowings	9,774	12,403
– Interest expense on lease liabilities	943	422
– Interest expense arose from guarantee deposits received	8,813	8,911
	<u>19,530</u>	<u>21,736</u>
Finance income		
– Interest income on cash and cash equivalents	(4,337)	(3,837)
– Interest income arose from guarantee deposits paid	(4,265)	(5,687)
	<u>(8,602)</u>	<u>(9,524)</u>
Finance costs – net	<u>10,928</u>	<u>12,212</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	
	2024	2023
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	6,525	10,972
Depreciation of right-of-use assets	11,515	10,975
Amortisation of intangible assets	18,854	12,909
Provision for inventories	10,288	30,898
Employee benefit expenses	162,506	141,944

Research and development costs recognised as expenses and included in administrative expenses for the six months ended 30 June 2024 were HK\$183,250,000 (2023: HK\$162,991,000), mainly comprised of employee costs of HK\$108,473,000 (2023: HK\$97,079,000) and material costs of HK\$36,413,000 (2023: HK\$24,458,000). No research and development costs were capitalised during the six months ended 30 June 2024 (2023: nil). For the six months ended 30 June 2024, provision for inventories of HK\$10,288,000 (2023: HK\$30,898,000) has been charged to cost of sales.

7 TAXATION

	Unaudited	
	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Current taxation		
– PRC corporate income tax	<u>22,442</u>	<u>51,816</u>
Deferred taxation		
– PRC corporate income tax	366	4,212
– Withholding tax on undistributed profits (<i>Note (c)</i>)	<u>11,435</u>	<u>17,288</u>
	<u>11,801</u>	<u>21,500</u>
Taxation	<u><u>34,243</u></u>	<u><u>73,316</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 2024 (2023: nil).
- (b) In accordance with the relevant 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%. Nevertheless, since Huada Electronics qualifies as an “Integrated Circuit Design Enterprises in National Planning Layout” and Huahong qualifies as a “High and New Technology Enterprise” for the year ending 31 December 2024, Huada Electronics and Huahong have adopted a preferential tax rate of 10% and 15% respectively for the six months ended 30 June 2024 (2023: a preferential tax rate of 10% and 15% respectively).
- (c) According to the relevant regulations of the corporate income tax laws of the PRC, when the Group’s foreign investment enterprises distribute dividends out of their profits earned from 1 January 2008 onwards to its shareholders outside Mainland China, 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 2024 (2023: 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	
	2024	2023
Profit for the period attributable to owners of the Company (HK\$'000)	309,545	552,885
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>15.25</u>	<u>27.24</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 180 days. The remaining sales are due immediately after the delivery of goods or provision of services. The ageing analysis of the Group's trade receivables (net of loss allowance for impairment) by invoice date is as follows:

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Within 30 days	199,347	64,782
31 days to 60 days	160,673	94,185
61 days to 180 days	122,390	152,897
Over 180 days and within 1 year	2,658	548
Over 1 year	<u>3,904</u>	<u>2,580</u>
	<u>488,972</u>	<u>314,992</u>

11 TRADE AND OTHER PAYABLES

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

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Within 30 days	106,001	158,273
31 days to 60 days	115,639	73,971
Over 60 days	<u>293,834</u>	<u>158,219</u>
	<u>515,474</u>	<u>390,463</u>

BUSINESS REVIEW

Results overview

Revenue of the Group for the six months ended 30 June 2024 amounted to HK\$1,360.6 million, representing a decrease of 24.7% when comparing with the corresponding period of last year. Profit attributable to owners of the Company amounted to HK\$309.5 million, representing a decrease of 44.0% when comparing with the corresponding period of last year. The basic earnings per share was HK15.25 cents (2023: HK27.24 cents).

Integrated circuits design operation

The Group's integrated circuits design operation comprises the design of smart cards and secure element 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, telecommunications, Internet of Things and intelligent connected vehicles. For the six months ended 30 June 2024, the Group obtained 11 new patents, registered 1 new software copyright and 1 new integrated circuits layout design.

In 2024, the overall global market demand for smart cards and secure element chips remained sluggish. During the first half of the year, the domestic integrated circuits industry was still in a destocking stage, market competition continued to be intense, and the selling prices of smart cards and secure element chip products continued to fall. During the period, affected by sluggish market demand, the sales volume of the Group's main products such as social security card chips, SIM card chips, bank card chips and secure element chips decreased when comparing with the corresponding period of last year. For the six months ended 30 June 2024, the Group's total sales volume decreased by 14.9% when comparing with the corresponding period of last year.

Due to the decline in overall sales volume in the first half of 2024, together with the effect that the general decline in the selling prices of smart cards and secure element chips when comparing with the corresponding period of last year had on the revenue for the period, the Group's revenue for the six months ended 30 June 2024 amounted to HK\$1,360.6 million, representing a decrease of 24.7% when comparing with the corresponding period of last year.

During the period, competition in the industry became increasingly intense, and the selling prices of smart cards and secure element chip products had fallen, resulting in a decrease in the overall gross profit margin for the six months ended 30 June 2024 when comparing with the corresponding period of last year.

Selling and marketing costs for the six months ended 30 June 2024 amounted to HK\$26.8 million (2023: HK\$26.1 million). The percentage of selling and marketing costs to revenue increased to 2.0% from 1.4% of the corresponding period of last year. The main reasons for the increase were the increase in marketing efforts during the period and the decline in revenue during the period had offset the results obtained from the implementation of strict cost control measures.

Administrative expenses for the six months ended 30 June 2024 amounted to HK\$238.0 million, representing an increase of 14.6% when comparing with the corresponding period of last year. The percentage of administrative expenses to revenue increased to 17.5% from 11.5% of the corresponding period of last year. The increase in administrative expenses was mainly due to an increase in research and development costs.

Research and development costs for the six months ended 30 June 2024 were HK\$183.3 million (2023: HK\$163.0 million). The percentage of research and development costs to revenue was 13.5% (2023: 9.0%). Research and development during the period mainly focused on the research and development of secure element chip products, the continuous improvements of the performance of smart card products, the raising of product security certification levels, research in the application of secure element chips for the Internet of Things sector, as well as the development of application systems and solutions.

OUTLOOK

Looking ahead, global demand for smart cards will continue to be in a downward cycle. Competition in the domestic integrated circuits industry and market will be even more intense, and the declining trend in product selling prices will be even more obvious. On the other hand, although the growth of the secure element chips business has slowed down due to the weak macroeconomy, as the security demand for intelligent equipment keeps on increasing, the range of application of secure element chips will be increasingly wider in the future, which will bring new market opportunities for the Group's business. With opportunities and challenges coexisting, the Group will continue to closely monitor the domestic market demand, seize market opportunities, actively explore potential customers, thereby consolidating its leading position in the sector of smart cards and secure element chips.

DIVIDEND

The Board has resolved not to declare any dividend for the six months ended 30 June 2024 (2023: nil).

FINANCIAL REVIEW

The Group consistently employs a prudent treasury policy and generally finances its working capital requirements through internal resources, and bank and other borrowings. At 30 June 2024, the Group had cash and cash equivalents amounting to HK\$1,375.3 million, of which 99.6% was denominated in Renminbi, 0.3% in United States dollars and 0.1% in Hong Kong dollars (31 December 2023: HK\$1,107.5 million, of which 97.9% was denominated in Renminbi, 1.8% in United States dollars and 0.3% in Hong Kong dollars).

At 30 June 2024, the Group had bank and other borrowings of HK\$493.1 million, all were due within one year and all were denominated in Renminbi (31 December 2023: HK\$496.6 million, all were due within one year and all were denominated in Renminbi). Among these borrowings, (i) all were unsecured (31 December 2023: all were unsecured), and (ii) all were borrowed at fixed interest rates (31 December 2023: all were borrowed at fixed interest rates). At 30 June 2024, committed borrowing facilities available to the Group but not drawn amounted to HK\$901.2 million.

At 30 June 2024, the Group did not pledge any assets as collateral for its borrowings (31 December 2023: 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 2024, the Group had net current assets of HK\$1,199.5 million (31 December 2023: HK\$1,459.9 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 2024 and 31 December 2023, the Group was in net cash position.

At 30 June 2024, the Group did not have any material outstanding capital commitment for the acquisition of fixed assets and intangible assets (31 December 2023: nil). The Group did not have any material contingent liability at 30 June 2024 (31 December 2023: nil).

EMPLOYEE AND REMUNERATION POLICIES

At 30 June 2024, the Group had approximately 450 employees, the majority of whom were based in Mainland China. Employee benefit expenses during the period were HK\$162.5 million.

The Group recognises the importance of high calibre and competent employee and has a strict recruitment policy and performance appraisal scheme. Remuneration policies of employee 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. 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 (including treasury shares) and the Company had not redeemed any of its shares (including treasury shares) during the six months ended 30 June 2024.

CORPORATE GOVERNANCE CODE

The Company is committed to achieving the best corporate governance practices by emphasising on 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 C1 to the Listing Rules. The Company has complied with all applicable code provisions in the CG Code throughout the six months ended 30 June 2024, with the exception of code provision C.1.6.

Under the code provision C.1.6 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Qiu Hongsheng, an independent non-executive director of the Company, was unable to attend the special general meeting and the annual general meeting of the Company held on 28 June 2024 due to other ad hoc engagements.

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 2024.

PUBLICATION OF INTERIM REPORT

The 2024 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 2024

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. Chang Feng (Deputy Chairman and Managing Director) and Mr. Wang Jian, and four Independent Non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng, Mr. Chow Chan Lum and Ms. Huang Yaping.