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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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

The board of directors (the “Board”) of China Electronics Huada Technology Company Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018 as follows:

AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Revenue	1,686,996	1,453,035
Cost of sales	<u>(1,156,265)</u>	<u>(952,759)</u>
Gross profit	530,731	500,276
Other income	32,855	133,175
Selling and marketing costs	(90,268)	(97,641)
Administrative expenses	(343,646)	(332,856)
Impairment losses on trade and other receivables	<u>(20,240)</u>	<u>(19,258)</u>
Operating profit	109,432	183,696
Finance income	5,614	8,731
Finance costs	(97,610)	(101,777)
Finance costs – net	(91,996)	(93,046)
Share of results of associates	126,651	129,874
Share of result of a joint venture	<u>228</u>	<u>(2,518)</u>
Profit before taxation	144,315	218,006
Taxation	<u>(27,725)</u>	<u>3,845</u>
Profit for the year	<u>116,590</u>	<u>221,851</u>

AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (*Cont'd*)

	Year ended 31 December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year attributable to:		
Owners of the Company	113,321	220,097
Non-controlling interests	3,269	1,754
	<u>116,590</u>	<u>221,851</u>
Dividend	<u>40,597</u>	<u>60,896</u>
	<i>HK cents</i>	<i>HK cents</i>
Basic earnings per share	<u>5.58</u>	<u>10.84</u>

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	116,590	221,851
Other comprehensive income for the year, net of taxation:		
Items that will not be subsequently reclassified to profit or loss:		
Recognition of gain in fair value of owner-occupied properties upon transfer to investment properties	–	17,602
Share of an associate's revaluation gains on properties	5,853	1,107
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements	<u>(162,274)</u>	<u>181,597</u>
Total comprehensive income for the year	<u>(39,831)</u>	<u>422,157</u>
Total comprehensive income for the year attributable to:		
Owners of the Company	(42,233)	418,642
Non-controlling interests	<u>2,402</u>	<u>3,515</u>
	<u>(39,831)</u>	<u>422,157</u>

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2018 <i>HK\$'000</i>	31 December 2017 <i>HK\$'000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	367,599	420,352
Investment properties	48,847	51,202
Land use rights	11,302	12,314
Intangible assets	2,059	2,869
Investment in associates	2,665,777	2,782,326
Investment in a joint venture	–	4,106
Deferred tax assets	38,024	40,980
	3,133,608	3,314,149
Current assets		
Inventories	603,679	406,085
Trade and other receivables	722,947	767,270
Financial assets at fair value through profit or loss	42,029	–
Available-for-sale financial assets	–	202,485
Short-term deposits	91,303	11,000
Cash and cash equivalents	375,525	373,831
	1,835,483	1,760,671
Total assets	4,969,091	5,074,820

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*Cont'd*)

	31 December 2018	31 December 2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital and premium	825,454	825,454
Reserves	(707,366)	(551,812)
Retained earnings	1,804,305	1,751,880
	<hr/>	<hr/>
	1,922,393	2,025,522
Non-controlling interests	18,790	16,388
	<hr/>	<hr/>
Total equity	1,941,183	2,041,910
	<hr/>	<hr/>
Liabilities		
Non-current liabilities		
Deferred tax liabilities	24,511	14,126
	<hr/>	<hr/>
Current liabilities		
Deferred government grants	44,083	31,863
Contract liabilities	13,377	–
Advances from customers	–	10,462
Trade and other payables	638,480	634,801
Bank and other borrowings	2,295,297	2,314,473
Income tax payable	12,160	27,185
	<hr/>	<hr/>
	3,003,397	3,018,784
	<hr/>	<hr/>
Total liabilities	3,027,908	3,032,910
	<hr/>	<hr/>
Total equity and liabilities	4,969,091	5,074,820
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GENERAL INFORMATION

China Electronics Huada Technology Company Limited was incorporated in the Cayman Islands and continued in Bermuda with limited liability. The Company has its shares listed on The Stock Exchange of Hong Kong Limited. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The ultimate holding company of the Company is China Electronics Corporation Limited ("CEC"), which is established in the People's Republic of China (the "PRC").

The principal activities of the Group are the design and sale of integrated circuit chips.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated.

BASIS OF PREPARATION

(a) Compliance with HKFRS and Listing Rules

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. These consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, certain financial assets at fair value through profit or loss and available-for-sale financial assets which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(b) New standards, amendments to standards and interpretations

During the year ended 31 December 2018, the Group had adopted the following new standards, amendments to standards and interpretations that are relevant to its operations and effective for the first time for the accounting period beginning on 1 January 2018:

HKFRS9	Financial instruments
HKFRS15	Revenue from contracts with customers
HKFRS15 (amendments)	Clarifications to HKFRS15 “Revenue from contracts with customers”
HKAS40 (amendments)	Transfers of investment property
HK(IFRIC) – Int22	Foreign currency transactions and advance consideration
Annual improvements 2014-2016 cycle	Amendments to HKFRS1 and HKAS28

Save as disclosed below, the application of the above new standards, amendments to standards and interpretations has no material impact on the amounts and/or disclosures reported in the consolidated financial statements.

HKFRS9 “Financial instruments”

The Group has adopted HKFRS9 on 1 January 2018. HKFRS9 introduces new requirements for recognition, classification and measurement of financial instruments.

From 1 January 2018, the Group classifies its financial assets into the following measurement categories:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition; and
- Financial assets at fair value through profit or loss.

The classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics.

From 1 January 2018, the category of loans and receivables, including cash and cash equivalents, short-term deposits, trade receivables, and financial assets included in other receivables, were transferred to debt instruments at amortised cost under HKFRS9. Notes receivables were transferred to debt instruments at fair value through other comprehensive income under HKFRS9. Available-for-sale financial assets were transferred to financial assets at fair value through profit or loss under HKFRS9. No revaluation reserve is transferred from other reserves to retained earnings as there is nil revaluation reserve related to available-for-sale financial assets at 31 December 2017. Impairment of trade receivables, other receivables and short-term deposits are recorded based on the expected credit loss model. The Group applies the simplified approach under HKFRS9 and records lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. The Group applies the general approach under HKFRS9 to financial assets included in notes receivables, other receivables and short-term deposits. The adoption of the expected credit loss model requirement of HKFRS9 did not result in any change in impairment allowances of the Group's debt financial assets.

The comparative information of the consolidated financial statements continues to be reported under the accounting policies and disclosure requirements prevailing prior to 1 January 2018, with changes in presentation as explained below.

Consolidated statement of financial position (Extract)	31 December		
	2017 (As originally reported)	Effect of adoption of HKFRS9	1 January 2018 (Restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Available-for-sale financial assets	202,485	(202,485)	–
Financial assets at fair value through profit or loss	–	202,485	202,485
	<u> </u>	<u> </u>	<u> </u>

HKFRS15 “Revenue from contracts with customers”

The Group has adopted HKFRS15 on 1 January 2018. HKFRS15 establishes a comprehensive framework for recognising revenue arising from contracts with customers. Revenue of the Group is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The comparative information of the consolidated financial statements continues to be reported under the accounting policies and disclosure requirements prevailing prior to 1 January 2018, with changes in presentation as explained below.

Consolidated statement of financial position (Extract)	31 December 2017 (As originally reported) HK\$'000	Effect of adoption of HKFRS15 HK\$'000	1 January 2018 (Restated) HK\$'000
Advances from customers	10,462	(10,462)	–
Contract liabilities	–	10,462	10,462
	<u> </u>	<u> </u>	<u> </u>

Disclosure on revenue recognised from contracts with customers by categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors for the year ended 31 December 2018 are set out in the note for revenue in the consolidated financial statements.

The following new standards, amendments to standards and interpretations that are relevant to the operation of the Group have been issued but are not effective for the accounting period beginning on 1 January 2018 and have not been early adopted:

HKFRS3 (amendments)	Definition of a business (effective from 1 January 2020)
HKFRS9 (amendments)	Prepayment features with negative compensation (effective from 1 January 2019)
HKFRS16	Leases (effective from 1 January 2019)
HKFRS10 and HKAS28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture (effective date not yet determined but available for adoption)
HKAS1 and HKAS8 (amendments)	Definition of material (effective from 1 January 2020)
HKAS28 (amendments)	Long-term interests in associates and joint ventures (effective from 1 January 2019)
HK(IFRIC) – Int23	Uncertainty over income tax treatments (effective from 1 January 2019)
Annual improvements 2015-2017 cycle	Amendments to HKFRS3, HKFRS11, HKAS12 and HKAS23 (effective from 1 January 2019)

Except for the application of new requirements under HKFRS16 “Leases” which may result in changes in measurement, presentation and disclosure, management does not anticipate that the application of other new standards, amendments to standards and interpretations will have material impact on the consolidated financial statements of the Group.

(c) Going concern

As at 31 December 2018, the Group's current liabilities exceeded its current assets by HK\$1,167,914,000 primarily due to the fact that the Group has liabilities under short-term bank and other borrowings (the "Short-term Borrowings") of HK\$2,295,297,000.

The Board has reviewed the Group's cash flow projections which covers a period of not less than twelve months from 31 December 2018. Given that the Short-term Borrowings of HK\$2,168.5 million are guaranteed by CEC, and taking into account the financial resources available to the Group, including the internally generated funds, expected renewal and extension of borrowings upon their maturity and the available committed borrowing facilities, the Board considers that there are sufficient financial resources available to the Group to meet its financial liabilities as and when they fall due in the coming twelve months from 31 December 2018. Accordingly, the Board has prepared the consolidated financial statements on a going concern basis.

REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sale of integrated circuit products	<u>1,686,996</u>	<u>1,453,035</u>

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

(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 the 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, accordingly no operating segment information is presented.

Revenues of HK\$379,004,000 and HK\$200,523,000 (2017: HK\$367,263,000 and HK\$166,871,000), respectively, are derived from 2 (2017: 2) external customers of the Group. Save as disclosed herein, no revenue derived from a single external customer has exceeded 10% of the revenue of the Group.

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.

OTHER INCOME

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Government grants	14,511	20,711
Gain on disposal of a business	–	102,510
Gain on disposal of a joint venture	2,415	–
Exchange gains	2,050	3,356
Fair value gains on financial assets at fair value through profit or loss	3,229	–
Gain on disposal of financial assets at fair value through profit or loss	7,211	–
Gains on disposal of available-for-sale financial assets	–	3,565
Rental income	2,531	1,217
Others	908	1,816
	<u>32,855</u>	<u>133,175</u>

EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs and administrative expenses are analysed as follows:

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation and amortisation expenses	45,379	44,824
Employee benefit expenses	161,223	178,664
Changes in inventories of finished goods and work in progress	197,594	149,075
Raw materials and consumables used	919,501	797,480
Provision for inventories	40,285	12,056
Operating lease expenses on properties	16,629	17,111
Auditor's remuneration	2,573	2,621
	<u>2,573</u>	<u>2,621</u>

Research and development costs for the year ended 31 December 2018 were HK\$211,823,000 (2017: HK\$224,869,000) and mainly comprised of employee costs of HK\$110,787,000 (2017: HK\$122,815,000) and material costs of HK\$34,375,000 (2017: HK\$34,593,000). No research and development costs were capitalised during the year ended 31 December 2018 (2017: nil).

FINANCE COSTS – NET

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Finance costs:		
– Interest expense on borrowings	97,610	101,777
Finance income:		
– Interest income on cash and cash equivalents	<u>(5,614)</u>	<u>(8,731)</u>
Finance costs – net	<u>91,996</u>	<u>93,046</u>

TAXATION

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current taxation		
– PRC corporate income tax	15,456	13,379
– Withholding tax on distributed profits (<i>Note (c)</i>)	<u>414</u>	<u>1,734</u>
	<u>15,870</u>	<u>15,113</u>
Deferred taxation		
– PRC corporate income tax	513	(22,057)
– Withholding tax on undistributed profits (<i>Note (c)</i>)	<u>11,342</u>	<u>3,099</u>
	<u>11,855</u>	<u>(18,958)</u>
	<u>27,725</u>	<u>(3,845)</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 year ended 31 December 2018 (2017: nil).
- (b) In accordance with 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 qualified as an “Integrated Circuit Design Enterprises in National Planning Layout” (“ICDE”) and thus enjoyed a 10% preferential tax rate for the year ended 31 December 2018. Based on management’s self-assessment and their track record of success in obtaining such types of qualifications, it is highly likely that Huada Electronics will continue to qualify as an ICDE and Huahong will qualify as a “High and New Technology Enterprise” and thus enjoys a 10% and a 15% preferential tax rate, respectively, after the year ended 31 December 2018.

- (c) According to the relevant regulations of the corporate income tax laws of the PRC, when a foreign investment enterprise 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%.
- (d) Reconciliation between the taxation expense on the Group's profit before taxation and the theoretical taxation that would arise using the respective applicable statutory tax rates is as follows:

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	<u>144,315</u>	<u>218,006</u>
Calculated at respective applicable statutory tax rates	59,837	53,918
Effect of tax concession	(34,198)	(5,834)
Research and development costs additional deductions	(12,126)	(20,793)
Income not subject to tax	(38,344)	(21,912)
Expenses not deductible for taxation purposes	20,027	1,337
Effect of change in tax rate on deferred taxation	(405)	–
Derecognition/(recognition) of deferred tax assets for previous year's tax losses	11,158	(10,698)
Utilisation of previously temporary differences for which no deferred tax asset was recognised	–	(30,817)
Withholding tax on distributed profits and current year's undistributed profits	17,722	6,567
Tax losses for which no deferred tax asset was recognised	<u>4,054</u>	<u>24,387</u>
Taxation expense	<u>27,725</u>	<u>(3,845)</u>
DIVIDEND		
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed dividend	<u>40,597</u>	<u>60,896</u>

The Board recommends the payment of a dividend of HK2.0 cents per share for the year ended 31 December 2018 (2017: HK3.0 cents per share). Subject to approval by the shareholders of the Company at the forthcoming annual general meeting, the dividend will be distributed on or about 31 July 2019. The proposed dividend of HK\$40,597,000 (2017: HK\$60,896,000), calculated based on the Company's number of shares issued at the date of this announcement, is not recognised as a liability in these consolidated financial statements.

EARNINGS PER SHARE

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

	2018	2017
Profit for the year attributable to owners of the Company (<i>HK\$'000</i>)	113,321	220,097
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 (<i>HK cents</i>)	5.58	10.84

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

TRADE 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) is as follows:

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 30 days	330,280	208,398
31 – 60 days	63,652	62,798
61 – 180 days	169,427	256,138
Over 180 days and within 1 year	112,669	106,934
Over 1 year	16,155	93,407
	692,183	727,675

TRADE PAYABLES

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

	2018	2017
	HK\$'000	HK\$'000
Current to 30 days	258,037	205,936
31 – 60 days	58,261	90,051
Over 60 days	85,674	119,751
	401,972	415,738

SUBSEQUENT EVENT

On 9 January 2019, the agreement for the purchase of Block C of China Electronics Information Security Technology Research and Development Foundation in the southern area of Future and Science Technology City, Beiqijia, Changping District, Beijing, the PRC (the "Property") by Huada Electronics from China Information Security Research Institute Co., Ltd. ("CIS Research Institute") and its supplemental agreement were terminated in accordance with its terms and conditions. Huada Electronics received a refund of RMB258,407,601 on 16 January 2019 from CIS Research Institute and relinquished its right to use the Property and its right to earn a profit from the Property to CIS Research Institute.

BUSINESS REVIEW

Results overview

Revenue of the Group for the year ended 31 December 2018 amounted to HK\$1,687.0 million, representing an increase of 16.1% when comparing with the corresponding period of last year. Profit attributable to owners of the Company amounted to HK\$113.3 million, representing a decrease of 48.5% when comparing with the corresponding period of last year. The decrease in profit was primarily attributable to the recognition by the Group of a one-off gain before taxation of HK\$102.5 million arising from the disposal of its navigation chips business for the year ended 31 December 2017. The basic earnings per share was HK5.58 cents (2017: HK10.84 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, our products are mainly used in sectors such as identity authentication, financial payment, government utilities, telecommunication and mobile payment. For the year ended 31 December 2018, the Group has obtained 63 new patents, registered 4 new software copyrights and 6 new integrated circuits layout designs.

In 2018, the economic growth in the PRC slowed down, but the domestic market of integrated circuits still flourished with strong demand. Yet, product selling price continued to fall due to fiercer competition in the industry. In particular, driven by the maturity of domestic-made chip technology and the policy on the issuance of state cryptographic algorithm powered bank cards, the market demand for domestic-made financial payment chips grew rapidly, which also led to intensifying competition and falling product selling price. In 2018, the Group successfully participated in bank card projects of various major domestic banks, sales volume of the financial payment chips of the Group increased significantly when comparing with the corresponding period of last year. Meanwhile, as the replacement process of the second-generation social security cards progressed, the issuance of the second-generation social security cards accelerated, and coupled with the supply of the third-generation social security cards in the first tranche of pilot cities has begun in 2018, sales volume of the social security card chips increased when comparing with the corresponding period of last year. Sales volume of identity authentication as well as telecommunication and mobile payment smart card chips remained stable and decreased slightly respectively when comparing with the corresponding period of last year. Sales volume of logic card chips decreased significantly when comparing with the corresponding period of last year due to changes in business planning. For the year ended 31 December 2018, overall sales volume of the Group decreased by 1.8% when comparing with the corresponding period of last year. Since the types of smart card chips that recorded growth in sales volume for the year ended 31 December 2018 were mainly financial payment and social security products with unit price higher than the weighted average selling price, revenue of the Group for the year ended 31 December 2018 was HK\$1,687.0 million, representing an increase of 16.1% when comparing with the corresponding period of last year.

Through successfully conducting research of, applying and promoting different types of raw materials, the Group has not only relieved the problem of shortage of raw material, but also controlled and reduced cost to a certain extent, and partly offset the negative effect on the overall gross profit margin of the year brought by the decrease in selling price of financial payment chips as well as telecommunication and mobile payment chips when comparing with the corresponding period of last year due to intensifying competition in the market. For the year ended 31 December 2018, the overall gross profit margin was 31.5%, representing a drop of 2.9 percentage points from 34.4% of the corresponding period of last year.

Selling and marketing costs for the year ended 31 December 2018 amounted to HK\$90.3 million (2017: HK\$97.6 million). The percentage of selling and marketing costs to revenue decreased to 5.4% from 6.7% of the corresponding period of last year. The decrease was mainly attributable to the continuous implementation by the Group of stringent cost control measures during the year.

Administrative expenses for the year ended 31 December 2018 amounted to HK\$343.6 million, representing an increase of 3.2% when comparing with the corresponding period of last year. The percentage of administrative expenses to revenue decreased to 20.4% from 22.9% of the corresponding period of last year. The Group continued to implement stringent cost control measures during the year.

Research and development costs for the year ended 31 December 2018 amounted to HK\$211.8 million (2017: HK\$224.9 million). The percentage of research and development costs to revenue was 12.6% (2017: 15.5%). The Group continued to implement the integration and centralised planning of research and development resources as well as stringent cost control measures during the year. Research and development during the year primarily focused on the continuous improvements in product functions and performance, advanced research of new process, enhancement of product security technology, research in application of security chips in the Internet of Things sector and the development of application systems and solutions.

Other income

Government grants recognised as income decreased by 30.0% to HK\$14.5 million for the year ended 31 December 2018 resulted from less government subsidies received for research and development costs incurred in the year.

Share of result of an associate

China Electronics Optics Valley Union Holding Company Limited (“CEOVU”), the Group’s associate listed on The Stock Exchange of Hong Kong Limited, is principally engaged in the business of development and operation of large-scale business parks in the PRC. The Group’s share of result from CEOVU for the year ended 31 December 2018 was HK\$126.0 million (2017: HK\$124.1 million).

OUTLOOK

Looking into 2019, competition across the domestic and international integrated circuits industry will intensify, and the product selling price will see a more apparent decreasing trend. However, due to the further application of the domestic-made substitute and the state cryptographic algorithm, certain sectors of the smart card chips market will provide market opportunities for the Group. In particular, the overall market capacity for financial payment chips will remain stable, and the market share of domestic-made chips will see further increase; the third-generation social security cards will enter large-scale application stage following the success in the pilot cities. The Group will continue to closely track domestic market demands, seize market opportunities, actively explore potential customers, strengthen the construction of sales channels and expand its scale. In addition, the Group will promote the industrial application of security chips, continue to strengthen new business layouts that could drive future revenue growth, strive to provide diversified and high quality products that meet the demands of customers and markets.

On the other hand, based on its security and application technology developed and accumulated over the years, increasing investment in technological research on high reliability and a market orientated approach, the Group will strengthen its research in areas such as Internet of Things system technology, security technology, smart card chips technology, and production process technology, and take forward the development of products such as Internet of Things security chips and system solution, and Internet of Things secure operation and maintenance platforms in a progressive manner, as well as strengthen the applications for industries such as smart cities, smart manufacturing, smart transportation, smart home, automotive electronics etc., and continuously strive to enhance its core competitiveness in the industry and the market of Internet of Things.

FINANCIAL RESOURCES AND LIQUIDITY

The Group generally finances its working capital and funding requirements through internal resources, and bank and other borrowings. At 31 December 2018, the Group had cash and cash equivalents amounted to HK\$375.5 million, of which 90.2% was denominated in Renminbi, 8.0% in Hong Kong dollars and 1.8% in United States dollars (2017: HK\$373.8 million, of which 96.8% was denominated in Renminbi, 2.3% in United States dollars and 0.9% in Hong Kong dollars).

At 31 December 2018, the Group had bank and other borrowings of HK\$2,295.3 million, of which 97.5% were denominated in Renminbi and 2.5% in Hong Kong dollars (2017: HK\$2,314.5 million, of which 95.6% were denominated in Renminbi and 4.4% in Hong Kong dollars). Among these borrowings, (i) HK\$57.5 million were secured by deposits of the Group and HK\$2,237.8 million were unsecured (2017: all were unsecured), and (ii) HK\$2,237.8 million and HK\$57.5 million were borrowed at fixed and variable interest rates respectively (2017: HK\$2,214.5 million and HK\$100.0 million were borrowed at fixed and variable interest rates respectively). At 31 December 2018, committed borrowing facilities available to the Group but not drawn amounted to HK\$2,746.1 million.

The Group's revenue are 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 31 December 2018, the Group had net current liabilities of HK\$1,167.9 million (2017: HK\$1,258.1 million). The gearing ratio, which is calculated as net debt divided by total equity and net debt of the Group, was 49.7% (2017: 48.7%).

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2018, the Group did not have any material outstanding capital commitment (2017: nil) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liability at 31 December 2018 (2017: nil).

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2018, the Group had approximately 370 employees, the majority of whom were based in the Mainland China. Employee benefit expenses for the year were HK\$161.2 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.

AUDIT COMMITTEE

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018.

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 year ended 31 December 2018.

CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2018.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's audited consolidated statement of profit or loss, audited consolidated statement of comprehensive income, audited consolidated statement of financial position and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the results announcement.

PUBLICATION OF ANNUAL REPORT

The 2018 annual 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
Dong Haoran
Chairman

Hong Kong, 29 March 2019

As at the date of this announcement, the Board comprises two Non-executive Directors, namely Mr. Dong Haoran (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.