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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 2019 AND PROPOSED APPOINTMENT OF AUDITOR

For the reasons explained below under “Unaudited consolidated financial statements of the Group for the year ended 31 December 2019”, the figures in respect of the consolidated financial statements of China Electronics Huada Technology Company Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2019 as set out in this announcement have neither been audited nor reviewed by the Company’s auditor. The board of directors (the “Board”) of the Company announces the unaudited consolidated results of the Group for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Revenue	1,695,486	1,686,996
Cost of sales	(1,158,987)	(1,156,265)
Gross profit	536,499	530,731
Other income	34,910	32,855
Selling and marketing costs	(83,154)	(90,268)
Administrative expenses	(345,756)	(343,646)
Impairment losses on trade and other receivables	(7,402)	(20,240)
Operating profit	135,097	109,432
Finance income	2,074	5,614
Finance costs	(103,381)	(97,610)
Finance costs – net	(101,307)	(91,996)
Share of results of associates	121,000	126,651
Share of result of a joint venture	–	228
Profit before taxation	154,790	144,315
Taxation	2,796	(27,725)
Profit for the year	157,586	116,590

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

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year attributable to:		
Owners of the Company	155,159	113,321
Non-controlling interests	2,427	3,269
	<u>157,586</u>	<u>116,590</u>
Dividend	<u>46,687</u>	<u>40,597</u>
	<i>HK cents</i>	<i>HK cents</i>
Basic earnings per share	<u>7.64</u>	<u>5.58</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	157,586	116,590
Other comprehensive income for the year, net of taxation:		
Items that will not be subsequently reclassified to profit or loss:		
Share of an associate's revaluation gains on properties	–	5,853
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements	<u>(44,670)</u>	<u>(162,274)</u>
Total comprehensive income for the year	<u>112,916</u>	<u>(39,831)</u>
Total comprehensive income for the year attributable to:		
Owners of the Company	111,649	(42,233)
Non-controlling interests	<u>1,267</u>	<u>2,402</u>
	<u>112,916</u>	<u>(39,831)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2019 (Unaudited) <i>HK\$'000</i>	31 December 2018 (Audited) <i>HK\$'000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	63,153	367,599
Right-of-use assets	52,908	–
Investment properties	48,291	48,847
Land use rights	–	11,302
Intangible assets	1,961	2,059
Investment in associates	2,707,889	2,665,777
Deferred tax assets	42,120	38,024
	2,916,322	3,133,608
Current assets		
Inventories	460,613	603,679
Trade and other receivables	713,585	722,947
Financial assets at fair value through profit or loss	14,142	42,029
Short-term deposits	450,994	91,303
Cash and cash equivalents	350,219	375,525
	1,989,553	1,835,483
Total assets	4,905,875	4,969,091

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

	31 December 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital and premium	825,454	825,454
Reserves	(750,876)	(707,366)
Retained earnings	<u>1,962,131</u>	<u>1,804,305</u>
	2,036,709	1,922,393
Non-controlling interests	<u>20,057</u>	<u>18,790</u>
Total equity	<u>2,056,766</u>	<u>1,941,183</u>
Liabilities		
Non-current liabilities		
Lease liabilities	32,180	–
Deferred tax liabilities	<u>12,923</u>	<u>24,511</u>
	<u>45,103</u>	<u>24,511</u>
Current liabilities		
Deferred government grants	43,667	44,083
Contract liabilities	6,363	13,377
Trade and other payables	537,474	638,480
Bank and other borrowings	2,187,988	2,295,297
Lease liabilities	21,670	–
Income tax payable	<u>6,844</u>	<u>12,160</u>
	<u>2,804,006</u>	<u>3,003,397</u>
Total liabilities	<u>2,849,109</u>	<u>3,027,908</u>
Total equity and liabilities	<u><u>4,905,875</u></u>	<u><u>4,969,091</u></u>

GENERAL INFORMATION

The Company is 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 and certain financial assets at fair value through profit or loss 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) Significant accounting policies

In the current year, the Group has adopted for the first time of all the new or amended HKFRSs and Hong Kong Accounting Standards (“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 2019. Except as disclosed below, 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 consolidated financial statements.

HKFRS16 “Leases”

In the current year, the Group has adopted HKFRS16 “Leases”. HKFRS16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group has applied HKFRS16 retrospectively with the cumulative effect of initial adoption as an adjustment to the retained earnings at 1 January 2019, and the comparative information of the consolidated financial statements continues to be reported under the accounting policies and disclosure requirements prevailing prior to 1 January 2019.

Under HKFRS16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Upon adoption of HKFRS16, the Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for leases with terms of 12 months or less (“short-term leases”) and leases of low-value assets. Right-of-use assets are initially measured at cost and subsequently carried at cost less accumulated depreciation and impairment losses. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and less any lease incentives received. Lease liabilities are initially measured at the present value of the remaining lease payments discounted using the incremental borrowing rate of the lessee. Subsequently, lease liabilities are adjusted by interest accretion and lease payments. For short-term leases and leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.

The effects of adoption of HKFRS16 at 1 January 2019 are as follows:

	Increase <i>HK\$’000</i>
Right-of-use assets	2,614
Investment in associates	43,322
Lease liabilities	2,672
Retained earnings	43,264

The reconciliation from operating lease commitments at 31 December 2018 to lease liabilities at 1 January 2019 is as follows:

	<i>HK\$'000</i>
Operating lease commitments at 31 December 2018	17,193
Weighted average incremental borrowing rate at 1 January 2019	4.89%
Discounted operating lease commitments at 1 January 2019	16,511
Less: Commitments relating to short-term leases and leases of low-value assets	<u>(13,839)</u>
Lease liabilities at 1 January 2019	<u><u>2,672</u></u>

(c) Going concern

At 31 December 2019, the Group's current liabilities exceeded its current assets by HK\$814,453,000 primarily due to the fact that the Group has liabilities under short-term bank and other borrowings (the "Short-term Borrowings") of HK\$2,187,988,000.

The Board has reviewed the Group's cash flow projections which covers a period of not less than twelve months from 31 December 2019. Given that the Short-term Borrowings of HK\$2,121.0 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 maturities and the available committed borrowing facilities, the Board considers that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due in the coming twelve months from 31 December 2019. Accordingly, the Board has prepared the consolidated financial statements on a going concern basis.

REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2019 (Unaudited) <i>HK\$'000</i>	2018 (Audited) <i>HK\$'000</i>
Sale of integrated circuit products	<u><u>1,695,486</u></u>	<u><u>1,686,996</u></u>

All the revenue of the Group are 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.

Revenues of HK\$373,768,000, HK\$344,619,000 and HK\$191,665,000 (2018: HK\$379,004,000 and HK\$200,523,000), respectively, are derived from 3 (2018: 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

	2019 (Unaudited) HK\$'000	2018 (Audited) HK\$'000
Government grants	10,179	14,511
Gain on disposal of a joint venture	–	2,415
Exchange gains	–	2,050
Fair value gains on financial assets at fair value through profit or loss	957	3,229
Gains on disposal of financial assets at fair value through profit or loss	1,722	7,211
Gain on disposal of a building in the PRC	9,122	–
Interest income	9,819	–
Rental income	2,434	2,531
Others	677	908
	34,910	32,855

EXPENSES BY NATURE

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

	2019 (Unaudited) <i>HK\$'000</i>	2018 (Audited) <i>HK\$'000</i>
Depreciation and amortisation expenses	44,209	45,379
Depreciation of right-of-use assets	21,670	–
Employee benefit expenses	160,998	161,223
Changes in inventories of finished goods and work in progress	135,952	197,594
Raw materials and consumables used	994,449	919,501
Provision for inventories	28,586	40,285
Rental expenses for short-term leases and leases of low-value asset	5,623	–
Operating lease expenses on properties	–	16,629
Auditor's remuneration	2,548	2,573

Research and development costs for the year ended 31 December 2019 were HK\$221,746,000 (2018: HK\$211,823,000) and mainly comprised of employee costs of HK\$111,896,000 (2018: HK\$110,787,000) and material costs of HK\$61,311,000 (2018: HK\$34,375,000). No research and development costs were capitalised during the year ended 31 December 2019 (2018: nil).

FINANCE COSTS – NET

	2019 (Unaudited) <i>HK\$'000</i>	2018 (Audited) <i>HK\$'000</i>
Finance costs:		
– Interest expense	103,381	97,610
Finance income:		
– Interest income	(2,074)	(5,614)
Finance costs – net	101,307	91,996

TAXATION

	2019 (Unaudited) HK\$'000	2018 (Audited) HK\$'000
Current taxation		
– PRC corporate income tax	5,395	15,456
– Withholding tax on distributed profits (<i>Note (c)</i>)	8,523	414
	13,918	15,870
Deferred taxation		
– PRC corporate income tax	(4,938)	513
– Withholding tax on undistributed profits (<i>Note (c)</i>)	(11,776)	11,342
	(16,714)	11,855
	(2,796)	27,725

- (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 2019 (2018: 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”) for the year ended 31 December 2019 and thus enjoyed a 10% preferential tax rate (2018: 10% preferential tax rate). 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” after the year ended 31 December 2019 and thus will enjoy a 10% and a 15% preferential tax rate, 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%.

- (d) Reconciliation between the taxation on the Group's profit before taxation and the theoretical taxation that would arise using the respective applicable statutory tax rates is as follows:

	2019 (Unaudited) HK\$'000	2018 (Audited) HK\$'000
Profit before taxation	154,790	144,315
Calculated at respective applicable statutory tax rates	33,529	59,837
Effect of tax concession	(36,243)	(34,198)
Research and development costs additional deductions	(14,717)	(12,126)
Income not subject to tax	(15,973)	(38,344)
Expenses not deductible for taxation purposes	23,893	20,027
Effect of change in tax rate on deferred taxation	(285)	(405)
Derecognition of deferred tax assets for previous year's tax losses	–	11,158
Withholding tax on distributed profits and current year's undistributed profits	5,270	17,722
Tax losses for which no deferred tax asset was recognised	1,730	4,054
Taxation	(2,796)	27,725
DIVIDEND		
	2019 (Unaudited) HK\$'000	2018 (Audited) HK\$'000
Proposed dividend	46,687	40,597

The Board recommends the payment of a dividend of HK2.3 cents per share for the year ended 31 December 2019 (2018: HK2.0 cents per share). Subject to approval by the shareholders of the Company at the forthcoming annual general meeting of the Company, the dividend will be distributed on or before 31 July 2020. The proposed dividend of HK\$46,687,000 (2018: HK\$40,597,000), 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:

	2019 (Unaudited)	2018 (Audited)
Profit for the year attributable to owners of the Company (<i>HK\$'000</i>)	155,159	113,321
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>)	7.64	5.58

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 for impairment) is as follows:

	2019 (Unaudited) <i>HK\$'000</i>	2018 (Audited) <i>HK\$'000</i>
Current to 30 days	307,117	330,280
31 – 60 days	86,898	63,652
61 – 180 days	158,620	169,427
Over 180 days and within 1 year	94,478	112,669
Over 1 year	9,776	16,155
	656,889	692,183

TRADE PAYABLES

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

	2019 (Unaudited) <i>HK\$'000</i>	2018 (Audited) <i>HK\$'000</i>
Current to 30 days	148,416	258,037
31 – 60 days	38,280	58,261
Over 60 days	125,790	85,674
	312,486	401,972

SIGNIFICANT EVENT AFTER THE FINANCIAL YEAR

After the financial year, the outbreak of the COVID-19 has been declared a pandemic by the World Health Organization. If the COVID-19 outbreak remains for a prolonged period of time, it may create negative impacts on the Group's performance. At the date of this announcement, given the rapid development of the COVID-19 outbreak, the Board considers that it is impracticable to estimate the financial impact to the Group. The Board will continue to assess the impact of the COVID-19 outbreak on the Group's operation and financial performance, closely monitor the Group's exposure to the risks and uncertainties in connection with the COVID-19 outbreak, and maintain close communication with different stakeholders of the Group.

BUSINESS REVIEW

Results overview

Revenue of the Group for the year ended 31 December 2019 amounted to HK\$1,695.5 million, at a level similar to that of last year. Profit attributable to owners of the Company amounted to HK\$155.2 million, representing an increase of 36.9% when comparing with last year. The basic earnings per share was HK7.64 cents (2018: HK5.58 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 sector of identity authentication, financial payment, government utilities and telecommunication. For the year ended 31 December 2019, the Group has obtained 31 new patents, registered 1 new software copyright and 5 new integrated circuits layout designs.

The year of 2019 saw many complex situations and development in the international arenas, slowing down the growth of global market for integrated circuits. Meanwhile, the market demand for domestic-made smart card chips grew steadily due to the further application of the domestic-made substitutes and the state cryptographic algorithm. In particular, as driven by the maturity of domestic-made chip technology and the policy on the issuance of bank cards with the state cryptographic algorithm, the market demand for domestic-made bank card chips soared. However, product selling prices continued to drop as a result of intensification of competition. In 2019, the Group successfully participated in bank card projects of various major domestic banks and recorded a significant increase in sales volume of bank card chips when comparing with last year. The market demand for telecommunication card chips remained steady amid fierce competition. Sales volume of telecommunication card chips for the year increased when comparing with last year. In 2019, the market demand for social security cards was steady, sales volume of social security card chips for the year increased slightly when comparing with last year. During the year, sales volume of identity authentication products was about the same as last year, while sales volume of some of the other smart card chips decreased significantly due to changes in business planning. For the year

ended 31 December 2019, overall sales volume of the Group increased by 10.0% when comparing with last year. As the recorded growth in sales volume for the year was mainly telecommunication card chips with unit price below the weighted average selling price, and along with the effect of decrease in selling price of smart card chips in general when comparing with last year resulting from further intensification of market price competition on the revenue during the year, revenue of the Group for the year ended 31 December 2019 was HK\$1,695.5 million, at a level similar to that of last year.

The Group has successfully conducted research of and promoted the use of different types of raw materials, which has both mitigated the problem of shortage of raw materials and achieved cost reduction to a certain extent, and offset the negative impact of decrease in selling price of smart card chips when comparing with last year caused by intense market competition on the overall gross profit margin of the year. Overall gross profit margin for the year ended 31 December 2019 was 31.6%, at a level similar to that of last year.

Selling and marketing costs for the year ended 31 December 2019 amounted to HK\$83.2 million (2018: HK\$90.3 million). The percentage of selling and marketing costs to revenue decreased to 4.9% from 5.4% 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 2019 amounted to HK\$345.8 million (2018: HK\$343.6 million). The percentage of administrative expenses to revenue was 20.4%, at a level similar to that 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 2019 amounted to HK\$221.7 million (2018: HK\$211.8 million). The percentage of research and development costs to revenue was 13.1% (2018: 12.6%). Research and development of the Group during the year primarily focused on the research and development of security chip products as well as the continuous improvements in smart card product functions and performance, advanced research of new process, enhancement of product security certification level, 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, etc.

Other income

Government grants recognised as income decreased by 29.9% to HK\$10.2 million for the year ended 31 December 2019 resulted from less government subsidies received for research and development costs incurred in the year.

For the year ended 31 December 2019, the Group recognised a gain on disposal of a building in the PRC of HK\$9.1 million following the termination of the agreement to purchase Block C of China Electronics Information Security Technology Research and Development Foundation in the PRC.

Share of result of an associate

China Electronics Optics Valley Union Holding Company Limited (“CEOVU”), an associate of the Group with its shares listed on The Stock Exchange of Hong Kong Limited, is principally engaged in the development of theme industrial parks in the PRC and related businesses. The Group’s share of result from CEOVU for the year ended 31 December 2019 was HK\$120.2 million (2018: HK\$126.0 million).

Taxation

Income tax credit for the year ended 31 December 2019 amounted to HK\$2.8 million (2018: income tax expense of HK\$27.7 million). The income tax credit in current year was mainly due to a decrease of current taxation and deferred taxation of HK\$15.0 million for the withholding tax on distributed profits and undistributed profits from a subsidiary in the PRC when comparing with last year and derecognition of deferred tax assets of HK\$11.2 million for previous year’s tax losses in 2018.

OUTLOOK

As a leader of the security smart card chips industry in the PRC, our products are mainly used in the sector of identity authentication, financial payment, government utilities as well as telecommunication. In 2019, the Group proactively opened up new markets, including breakthroughs in the application of smart transportation on highways and Internet of Vehicles, as well as achieved efficient development in the area of security chip product lines and solutions.

Looking into 2020, the integrated circuits industry is expected to see fiercer competition in both domestic and international markets, with apparent trend of increasing industry chain costs and downward trend of product selling price further accelerating. In the meantime, the COVID-19 pandemic will also cast certain degree of uncertainty on the overall macroeconomic environment in 2020. Nevertheless, further application of the domestic-made substitutes and the state cryptographic algorithm in certain sectors of smart card chips market in 2020, as well as 5G and Internet of Things becoming the key development direction of new infrastructure, both of which will push up demand for higher information security and will bring market opportunities to the businesses of the Group. The Group will continue to closely track domestic market demands, actively explore potential customers and strengthen sales channels construction, follow up on the development needs of telecommunication card chips for 5G application and continue to expand the security chips market, with a view to provide diversified and quality products that meet the demand of the customers and markets.

On the other hand, based on its smart card chips security and application technology accumulated over the years, the Group will continue to pursue in-depth researches on security technology and high reliability technology, and with a market-orientated approach, strengthen research on areas such as Internet of Things system technology, security technology, smart card chips technology, process technology, etc., and take forward the development of products such as Internet of Things security chips and system solutions, and Internet of Things security 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., continuously strive to enhance its core competitiveness in 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 2019, the Group had cash and cash equivalents amounted to HK\$350.2 million, of which 97.0% was denominated in Renminbi, 2.3% in United States dollars, 0.7% in Hong Kong dollars (2018: 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).

At 31 December 2019, the Group had bank and other borrowings of HK\$2,188.0 million, all were denominated in Renminbi (2018: HK\$2,295.3 million, of which 97.5% were denominated in Renminbi and 2.5% in Hong Kong dollars). Among these borrowings, (i) all were unsecured (2018: HK\$57.5 million were secured by deposits of the Group and HK\$2,237.8 million were unsecured), and (ii) all were borrowed at fixed interest rate (2018: HK\$2,237.8 million and HK\$57.5 million were borrowed at fixed and variable interest rates respectively). At 31 December 2019, committed borrowing facilities available to the Group but not drawn amounted to HK\$881.3 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 2019, the Group had net current liabilities of HK\$814.5 million (2018: HK\$1,167.9 million). The gearing ratio, which is calculated as net debt divided by total equity and net debt of the Group, was 40.3% (2018: 48.5%).

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2019, the Group did not have any material outstanding capital commitment (2018: nil) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liability at 31 December 2019 (2018: nil).

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2019, the Group had approximately 370 employees, the majority of whom were based in the PRC. Employee benefit expenses for the year were HK\$161.0 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 consolidated financial statements of the Group for the year ended 31 December 2019. The figures in respect of the consolidated financial statements of the Group for the year ended 31 December 2019 as set out in this announcement have been reviewed and agreed by the audit committee.

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 2019.

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 2019.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of this announcement, the Company's auditor, Ernst & Young, has not completed the audit of the consolidated financial statements of the Group for the year ended 31 December 2019 due to restrictions in force in parts of the PRC to combat the COVID-19 outbreak. Hence, the consolidated financial statements of the Group for the year ended 31 December 2019 have not yet been agreed by the Company's auditor as required under Rule 13.49(2) of the Listing Rules. The figures in respect of the consolidated financial statements of the Group for the year ended 31 December 2019 as set out in this announcement have neither been audited nor reviewed by the Company's auditor. Following the completion of the audit of the consolidated financial statements of the Group for the year ended 31 December 2019, the Company will publish further announcement(s) in compliance with the relevant requirements under the Listing Rules.

PUBLICATION OF ANNUAL REPORT

The 2019 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.

PROPOSED APPOINTMENT OF AUDITOR

CEOVU, a significant associate of the Group with its shares listed on The Stock Exchange of Hong Kong Limited, has traditionally been a major contributor to the Group's results. CEOVU and its subsidiaries (the "CEOVU Group") are principally engaged in the development of theme industrial parks in the PRC and related businesses. PricewaterhouseCoopers is currently the auditor of CEOVU. On the other hand, the Group is principally engaged in the business of design and sale of integrated circuit chips. With the accounting principles and standards applicable to the Group and to the CEOVU Group becoming increasingly complex in recent years, the Board is of the view that it would be in the interest of the Company and its shareholders for the Group and the CEOVU Group to appoint the same auditor for the alignment of the audit work and with a view to enhancing the efficiency of the audit services. In this regards, the Board communicated with Ernst & Young its intention to change the auditor of the Company and proposed Ernst & Young to retire as auditor of the Company upon expiration of its current term of office at the close of the forthcoming annual general meeting of the Company.

On 30 March 2020, upon recommendation of the audit committee, the Board resolved to recommend the appointment of PricewaterhouseCoopers as the auditor of the Company to fill the vacancy following the expiration of the current term of office of Ernst & Young and to hold office until the conclusion of the next annual general meeting of the Company. Such appointment is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

Ernst & Young has confirmed that, up to the date of this announcement, there are no matters that need to be brought to the attention of the shareholders of the Company. Save as disclosed herein, the Board has confirmed that there is no other matter relating to the proposed change of auditor of the Company that needs to be brought to the attention of the shareholders of the Company.

By Order of the Board
China Electronics Huada Technology Company Limited
Dong Haoran
Chairman

Hong Kong, 30 March 2020

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.