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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)

2020 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 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Unaudited Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Revenue	3	716,443	908,572
Cost of sales		(462,669)	(608,522)
Gross profit		253,774	300,050
Other income	4	14,304	24,369
Selling and marketing costs		(38,101)	(43,533)
Administrative expenses		(136,555)	(165,378)
Impairment losses on trade and other receivables		(7,714)	(8,055)
Operating profit		85,708	107,453
Finance income	5	1,848	876
Finance costs	5	(49,161)	(53,054)
Finance costs – net	5	(47,313)	(52,178)
Share of results of associates		38,229	16,878
Profit before taxation	6	76,624	72,153
Taxation	7	(7,863)	972
Profit for the period		68,761	73,125

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (*Continued*)

		Unaudited	
		Six months ended 30 June	
		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to:			
Owners of the Company		67,547	72,231
Non-controlling interests		1,214	894
		<u>68,761</u>	<u>73,125</u>
		<i>HK cents</i>	<i>HK cents</i>
Basic earnings per share	9	<u>3.33</u>	<u>3.56</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Profit for the period	68,761	73,125
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	<u>(40,650)</u>	<u>(14,572)</u>
Total comprehensive income for the period	<u>28,111</u>	<u>58,553</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	26,593	58,401
Non-controlling interests	<u>1,518</u>	<u>152</u>
	<u>28,111</u>	<u>58,553</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
<i>Note</i>	HK\$'000	HK\$'000
ASSETS		
Non-current assets		
Property, plant and equipment	54,327	63,153
Right-of-use assets	68,536	52,908
Investment properties	47,546	48,291
Intangible assets	13,796	1,961
Investment in associates	2,630,019	2,707,889
Trade and other receivables	1,499	–
Deferred tax assets	44,331	42,120
	2,860,054	2,916,322
Current assets		
Inventories	463,949	460,613
Trade and other receivables	10 1,075,254	713,585
Financial assets at fair value through profit or loss	14,100	14,142
Short-term deposits	251,795	450,994
Restricted cash	54,740	–
Cash and cash equivalents	432,635	350,219
	2,292,473	1,989,553
Total assets	5,152,527	4,905,875

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*Continued*)

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
<i>Note</i>	HK\$'000	HK\$'000
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital and premium	825,454	825,454
Reserves	(791,830)	(750,876)
Retained earnings	1,982,991	1,962,131
	<u>2,016,615</u>	<u>2,036,709</u>
Non-controlling interests	21,575	20,057
	<u>2,038,190</u>	<u>2,056,766</u>
Liabilities		
Non-current liabilities		
Lease liabilities	40,971	32,180
Deferred tax liabilities	11,009	12,923
	<u>51,980</u>	<u>45,103</u>
Current liabilities		
Deferred government grants	53,227	43,667
Contract liabilities	6,872	6,363
Trade and other payables	654,341	537,474
Bank and other borrowings	2,309,402	2,187,988
Lease liabilities	26,332	21,670
Income tax payable	12,183	6,844
	<u>3,062,357</u>	<u>2,804,006</u>
Total liabilities	<u>3,114,337</u>	<u>2,849,109</u>
Total equity and liabilities	<u>5,152,527</u>	<u>4,905,875</u>

Notes:

1 BASIS OF PREPARATION

(a) 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 2019, 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.

(b) Going concern

At 30 June 2020, the Group’s current liabilities exceeded its current assets by HK\$769,884,000 primarily due to the fact that the Group has liabilities under short-term bank and other borrowings (the “Short-term Borrowings”) of HK\$2,309,402,000.

The Board has reviewed the Group’s cash flow projections which covers a period of not less than twelve months from 30 June 2020. Given that the Short-term Borrowings of HK\$2,189.5 million are guaranteed by China Electronics Corporation Limited, 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 30 June 2020. Accordingly, the Board has prepared the condensed consolidated interim financial statements on a going concern basis.

2 PRINCIPAL ACCOUNTING POLICIES

Except for the adoption for the first time of all the new and amended HKFRSs, 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 2020, 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 2019.

The adoption of these new and 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	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sale of integrated circuit products	716,443	908,572

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

(b) Operating segments

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

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

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

4 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Government grants	6,633	6,720
Exchange gains	544	–
Fair value gains on financial assets at fair value through profit or loss	174	1,729
Interest income	4,844	5,388
Rental income	1,225	1,260
Gain on disposal of a building in the PRC	–	9,122
Others	884	150
	14,304	24,369

5 FINANCE COSTS – NET

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Finance costs		
– Interest expense	49,161	53,054
Finance income		
– Interest income	(1,848)	(876)
Finance costs – net	47,313	52,178

6 PROFIT BEFORE TAXATION

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	5,508	6,551
Depreciation of right-of-use assets	12,757	9,779
Amortisation of intangible assets	3,470	3,339
Provision for inventories	8,871	1,050
Rental expenses for short-term leases and leases of low-value assets	5,334	5,007

Research and development costs for the six months ended 30 June 2020 were HK\$90,030,000 (2019: HK\$105,994,000), and mainly comprised of employee costs of HK\$51,452,000 (2019: HK\$53,677,000) and material costs of HK\$16,514,000 (2019: HK\$31,050,000). No research and development costs were capitalised during the six months ended 30 June 2020 (2019: nil). For the six months ended 30 June 2020, provision for inventories of HK\$8,871,000 (2019: HK\$1,050,000) has been charged to cost of sales.

7 TAXATION

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Current taxation		
– PRC corporate income tax	7,473	11,704
– Withholding tax on distributed profits (<i>Note (c)</i>)	<u>5,113</u>	<u>(5,790)</u>
	<u>12,586</u>	<u>5,914</u>
Deferred taxation		
– PRC corporate income tax	(2,637)	(10,392)
– Withholding tax on undistributed profits (<i>Note (c)</i>)	<u>(2,086)</u>	<u>3,506</u>
	<u>(4,723)</u>	<u>(6,886)</u>
	<u><u>7,863</u></u>	<u><u>(972)</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 2020 (2019: 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 qualify as an “Integrated Circuit Design Enterprises in National Planning Layout” for the year ending 31 December 2020 and thus enjoy a 10% preferential tax rate (2019: 10% preferential tax rate).
- (c) According to the relevant regulations of the corporate income tax laws of the PRC, when a foreign investment enterprise in the PRC distributes dividends out of the profits earned from 1 January 2008 onwards to its overseas investors, such dividends are subject to withholding tax at a rate of 10%.

8 DIVIDEND

The Board has resolved not to declare any dividend for the six months ended 30 June 2020 (2019: 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	
	2020	2019
Profit for the period attributable to owners of the Company (HK\$'000)	67,547	72,231
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>3.33</u>	<u>3.56</u>

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

10 TRADE AND OTHER RECEIVABLES

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Current to 30 days	539,547	307,117
31-60 days	58,069	86,898
61-180 days	215,051	158,620
Over 180 days and within 1 year	121,482	94,478
Over 1 year	41,468	9,776
	975,617	656,889

11 TRADE AND OTHER PAYABLES

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Current to 30 days	103,577	148,416
31-60 days	142,114	38,280
Over 60 days	108,745	125,790
	354,436	312,486

12 EVENT OCCURRING AFTER THE REPORTING PERIOD

Pursuant to an agreement entered into with China Electronics Information Service Company Limited (中國中電國際信息服務有限公司) on 30 July 2020, CEC Media Holdings Limited, a wholly-owned subsidiary of the Company, has conditionally agreed to sell 2,550,000,000 ordinary shares of China Electronics Optics Valley Union Holding Company Limited ("CEOVU"), representing 33.67% of the issued share capital of CEOVU, at a consideration of HK\$1,785.00 million (the "Disposal"). Upon completion of the Disposal, CEOVU will cease to be an associate of the Group. Up to the date of this announcement, the Disposal has not yet been completed. Details of the Disposal are set out in the announcement dated 30 July 2020.

BUSINESS REVIEW

Results overview

Revenue of the Group for the six months ended 30 June 2020 amounted to HK\$716.4 million, representing a decrease of 21.1% when comparing with the corresponding period of last year. Profit attributable to owners of the Company amounted to HK\$67.5 million, representing a decrease of 6.5% when comparing with the corresponding period of last year. The basic earnings per share was HK3.33 cents (2019: HK3.56 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 sectors of identity authentication, financial payment, government utilities and telecommunication. For the six months ended 30 June 2020, the Group has obtained 7 new patents and registered 2 new integrated circuits layout designs.

In the first half of 2020, the market demand for domestic-made bank card chips continued to grow as domestic-made bank card chips were increasingly recognized by various banks, and the sales volume of bank card chips increased when comparing with the corresponding period of last year. The sales of telecommunication card chips was better in early 2020 due to the growing demand in late 2019, and hence the overall sales volume in the first half of 2020 increased slightly when comparing with the corresponding period of last year. During the period, sales volume of identity authentication products was broadly comparable to the level of the corresponding period of last year. As a result of the COVID-19 pandemic, the sales volume of social security card chips declined significantly in the first half of 2020 when comparing with the corresponding period of last year due to stagnant demand in the social security cards market as a result of the crowd control in medical institutions and restrictions on the resumption of work and production during the pandemic in various industries. For the six months ended 30 June 2020, the Group's total sales volume increased by 2.0% when comparing with the corresponding period of last year.

As the decrease in sales volume of various types of smart card chips in the first half of 2020 mainly involved products with higher unit price, and along with the impact of a general decline in the selling price of smart card chips when comparing with the corresponding period of last year as a result of further intensification in market price competition on the revenue during the period, the Group's revenue for the six months ended 30 June 2020 was HK\$716.4 million, representing a decrease of 21.1% when comparing with the corresponding period of last year.

In the first half of 2020, the Group, through adjusting the product mix of its smart card chips business and focusing on products with a better gross profit margin, while also strengthening cost control and striving to expand market share of its products, had offset the impact of a decline in the selling price of smart card chip products on the gross profit margin during the period. Overall gross profit margin has increased by 2.4 percentage points to 35.4% for the six months ended 30 June 2020.

Selling and marketing costs for the six months ended 30 June 2020 amounted to HK\$38.1 million (2019: HK\$43.5 million). The percentage of selling and marketing costs to revenue increased to 5.3% from 4.8% of the corresponding period of last year. The increase was mainly attributable to the fact that the progress achieved through the continuous implementation of stringent cost control measures by the Group during the period was more than offset by the loss of revenue due to the COVID-19 pandemic.

Administrative expenses for the six months ended 30 June 2020 amounted to HK\$136.6 million, representing a decrease of 17.4% when comparing with the corresponding period of last year. The percentage of administrative expenses to revenue was 19.1% (2019: 18.2%). The increase was mainly attributable to the fact that the progress achieved through the continuous implementation of stringent cost control measures by the Group during the period was more than offset by the loss of revenue due to the COVID-19 pandemic.

Research and development costs for the six months ended 30 June 2020 amounted to HK\$90.0 million (2019: HK\$106.0 million). The percentage of research and development costs to revenue was 12.6% (2019: 11.7%). Research and development of the Group during the period primarily focused on the research and development of security chip products as well as the continuous improvements in smart card product performance, enhancement of product security certification level, research in application of security chips in the Internet of Things sector and the development of application systems and solutions, etc.

Other income

Other income decreased by 41.3% to HK\$14.3 million for the six months ended 30 June 2020 primarily due to the fact that for the six months ended 30 June 2019, the Group had recognised a one-off gain before taxation of HK\$9.1 million arising from the disposal of a building in the PRC.

Share of result of an associate

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 six months ended 30 June 2020 was HK\$38.2 million (2019: HK\$16.8 million).

OUTLOOK

Looking ahead, due to the impact of the global COVID-19 pandemic, there is uncertainty in the market demand for the domestic smart card chips market in the second half of the year, and the market demand may continue to lag behind depending on the development of the pandemic. However, certain sectors of the smart card chips market will continue to be driven by the further application of the domestic-made substitutes and the state cryptographic algorithm, while 5G and Internet of Things will become the key development directions of new infrastructure which will increase demand for higher information security. The Group believes that both factors will bring market opportunities for the Group's businesses. The Group will continue to closely track the domestic market demands, actively explore potential customers, strengthen the establishment of sales channels and continue to expand the security chips market, and strive to provide diversified and high-quality products that meet the needs of customers and the market.

DIVIDEND

The Board has resolved not to declare any dividend for the six months ended 30 June 2020 (2019: nil).

FINANCIAL REVIEW

The Group generally finances its working capital and funding requirements through internal resources, and bank and other borrowings. At 30 June 2020, the Group had cash and cash equivalents amounted to HK\$432.6 million, of which 98.1% was denominated in Renminbi, 1.0% in United States dollars and 0.9% in Hong Kong dollars (31 December 2019: HK\$350.2 million, of which 97.0% was denominated in Renminbi, 2.3% in United States dollars and 0.7% in Hong Kong dollars).

At 30 June 2020, the Group had bank and other borrowings of HK\$2,309.4 million, all were denominated in Renminbi (31 December 2019: HK\$2,188.0 million, all were denominated in Renminbi). Among these borrowings, (i) HK\$54.2 million were secured by deposits of the Group and HK\$2,255.2 million were unsecured (31 December 2019: all were unsecured), and (ii) all were borrowed at fixed interest rates (31 December 2019: all were borrowed at fixed interest rates). At 30 June 2020, committed borrowing facilities available to the Group but not drawn amounted to HK\$870.2 million.

At 30 June 2020, certain assets of the Group with an aggregate carrying value of HK\$54.7 million were pledged as collateral for borrowings of the Group (31 December 2019: the Group did not pledge any assets as collateral for its borrowings).

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 30 June 2020, the Group had net current liabilities of HK\$769.9 million (31 December 2019: HK\$814.5 million). The gearing ratio, which is calculated as net debt divided by total equity and net debt of the Group, was 43.5% (31 December 2019: 40.3%).

At 30 June 2020, the Group did not have any material outstanding capital commitment (31 December 2019: nil) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liability at 30 June 2020 (31 December 2019: nil).

EMPLOYEE AND REMUNERATION POLICIES

At 30 June 2020, the Group had approximately 370 employees, the majority of whom were based in the PRC. Employee benefit expenses during the period were HK\$88.4 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.

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 2020.

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 2020, except for the following deviation:

The Chairman of the Board, Mr. Dong Haoran, did not attend the annual general meeting of the Company held on 29 June 2020 (the "AGM") due to other crucial business on that date. Mr. Dong is aware that his absence constituted deviation from the code provision E.1.2 of the CG Code which stipulates that the chairman of the board should attend the annual general meeting of the company. However, Mr. Dong has asked Mr. Chan Kay Cheung, the chairman of the audit committee, to chair the AGM in his stead. The Deputy Chairman, the chairman of the remuneration and nomination committee and the Managing Director attended the AGM and were available to answer questions at the AGM, so effective communication with shareholders was ensured.

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 2020.

PUBLICATION OF INTERIM REPORT

The 2020 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
Dong Haoran
Chairman

Hong Kong, 26 August 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.