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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)

2023 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 2023 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Unaudited Six months ended 30 June	
		2023 HK\$'000	2022 HK\$'000
Revenue	3	1,807,007	1,159,157
Cost of sales		(966,340)	(692,072)
Gross profit		840,667	467,085
Other income	4	31,142	24,880
Selling and marketing costs		(26,116)	(34,714)
Administrative expenses		(207,794)	(212,592)
Impairment losses on trade and other receivables		(1,284)	(4,937)
Operating profit		636,615	239,722
Finance income	5	9,524	1,469
Finance costs	5	(21,736)	(15,223)
Finance costs – net	5	(12,212)	(13,754)
Share of result of an associate		279	333
Profit before taxation	6	624,682	226,301
Taxation	7	(73,316)	(24,248)
Profit for the period		551,366	202,053

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (*Continued*)

		Unaudited	
		Six months ended 30 June	
		2023	2022
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to:			
Owners of the Company		552,885	203,191
Non-controlling interests		(1,519)	(1,138)
		551,366	202,053
		<i>HK cents</i>	<i>HK cents</i>
Basic earnings per share	9	27.24	10.01

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	551,366	202,053
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	(19,918)	(4,571)
Items that will not be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	(54,284)	(45,735)
Total comprehensive income for the period	477,164	151,747
Total comprehensive income for the period attributable to:		
Owners of the Company	478,441	154,617
Non-controlling interests	(1,277)	(2,870)
	477,164	151,747

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2023 (Unaudited) <i>HK\$'000</i>	31 December 2022 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		37,028	44,026
Right-of-use assets		19,457	33,124
Investment properties		47,769	49,199
Intangible assets		71,111	23,410
Investment in associates		16,038	16,514
Trade and other receivables	10	150,461	200,985
Deferred tax assets		47,942	44,948
Time deposits		109,087	89,559
		498,893	501,765
Current assets			
Inventories		1,050,897	884,693
Trade and other receivables	10	888,972	731,544
Restricted cash		3	33,859
Time deposits		942,754	732,141
Cash and cash equivalents		1,216,178	1,172,748
		4,098,804	3,554,985
Total assets		4,597,697	4,056,750

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*Continued*)

		30 June	31 December
		2023	2022
		(Unaudited)	(Audited)
	<i>Note</i>	HK\$'000	HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital and premium		225,454	225,454
Reserves		(783,302)	(546,468)
Retained earnings		<u>2,499,524</u>	<u>1,946,639</u>
		1,941,676	1,625,625
Non-controlling interests		<u>25,781</u>	<u>27,058</u>
		1,967,457	1,652,683
Liabilities			
Non-current liabilities			
Lease liabilities		7,159	11,795
Trade and other payables	<i>11</i>	342,570	319,546
Deferred tax liabilities		49,313	33,789
Contract liabilities		<u>15,899</u>	<u>22,700</u>
		414,941	387,830
Current liabilities			
Deferred government grants		50,630	51,046
Contract liabilities		407,391	383,516
Trade and other payables	<i>11</i>	1,146,245	942,128
Bank and other borrowings		596,542	615,715
Lease liabilities		14,456	23,768
Income tax payable		<u>35</u>	<u>64</u>
		2,215,299	2,016,237
Total liabilities		<u>2,630,240</u>	<u>2,404,067</u>
Total equity and liabilities		<u>4,597,697</u>	<u>4,056,750</u>

Notes:

1 BASIS OF PREPARATION

Compliance with HKFRSs, HKASs, Interpretations and Listing Rules

The condensed consolidated interim financial statements have been prepared in accordance with all applicable disclosure requirements of Appendix 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 2022, which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties which are carried at fair value.

2 PRINCIPAL ACCOUNTING POLICIES

Except for the adoption for the first time of all the new or amended HKFRSs and HKASs, and Interpretations issued by the Hong Kong Institute of Certified Public Accountants that are relevant to the Group’s operations and effective for the accounting period beginning on 1 January 2023, the accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those adopted in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2022.

The adoption of these new or amended standards and interpretations had no material effect on the results and financial position of the Group and/or disclosures set out in the condensed consolidated interim financial statements.

3 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Sale of integrated circuit products and provision of services	<u>1,807,007</u>	<u>1,159,157</u>

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

(b) Segment information

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

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

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

4 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Government grants	11,317	9,867
Interest income	17,565	10,650
Rental income	1,242	1,326
Others	<u>1,018</u>	<u>3,037</u>
	<u>31,142</u>	<u>24,880</u>

5 FINANCE COSTS – NET

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Finance costs		
– Interest expense on borrowings	12,403	13,977
– Interest expense on lease liabilities	422	1,246
– Interest expense arose from guarantee deposits received	8,911	–
	<u>21,736</u>	<u>15,223</u>
Finance income		
– Interest income on cash and cash equivalents	(3,837)	(1,469)
– Interest income arose from guarantee deposits paid	(5,687)	–
	<u>(9,524)</u>	<u>(1,469)</u>
Finance costs – net	<u>12,212</u>	<u>13,754</u>

6 PROFIT BEFORE TAXATION

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	10,972	10,879
Depreciation of right-of-use assets	10,975	12,150
Amortisation of intangible assets	12,909	16,009
Provision/(reversal of provision) for inventories	30,898	(11,408)

Research and development costs recognised as expenses and included in administrative expenses for the six months ended 30 June 2023 were HK\$162,991,000 (2022: HK\$158,517,000), mainly comprised of employee costs of HK\$97,079,000 (2022: HK\$85,686,000) and material costs of HK\$24,458,000 (2022: HK\$31,151,000). No research and development costs were capitalised during the six months ended 30 June 2023 (2022: nil). For the six months ended 30 June 2023, provision for inventories of HK\$30,898,000 (2022: reversal of provision for inventories of HK\$11,408,000) has been charged/credited to cost of sales.

7 TAXATION

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Current taxation		
– PRC corporate income tax	51,816	12,825
– Withholding tax on distributed profits (<i>Note (c)</i>)	–	6,036
	<u>51,816</u>	<u>18,861</u>
Deferred taxation		
– PRC corporate income tax	4,212	3,632
– Withholding tax on undistributed profits (<i>Note (c)</i>)	17,288	1,755
	<u>21,500</u>	<u>5,387</u>
	<u><u>73,316</u></u>	<u><u>24,248</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 2023 (2022: nil).
- (b) In accordance with the relevant regulations of the corporate income tax laws of the PRC, the applicable statutory tax rate of CEC Huada Electronic Design Co., Ltd (“Huada Electronics”) and Shanghai Huahong Integrated Circuit Co., Ltd (“Huahong”) is 25%. Nevertheless, since Huada Electronics qualifies as an “Integrated Circuit Design Enterprises in National Planning Layout” and Huahong qualifies as a “High and New Technology Enterprise” for the year ending 31 December 2023, Huada Electronics and Huahong have adopted a preferential tax rate of 10% and 15% respectively for the six months ended 30 June 2023 (2022: a preferential tax rate of 15% and 10% respectively).
- (c) According to the relevant regulations of the corporate income tax laws of the PRC, when the Group’s foreign investment enterprises distribute dividends out of their profits earned from 1 January 2008 onwards to its shareholders outside Mainland China, such dividends are subject to withholding tax at a rate of 10%.

8 DIVIDEND

The Board has resolved not to declare any dividend for the six months ended 30 June 2023 (2022: 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	
	2023	2022
Profit for the period attributable to owners of the Company (HK\$'000)	552,885	203,191
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>27.24</u>	<u>10.01</u>

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

10 TRADE AND OTHER RECEIVABLES

The majority of the Group's sales are with credit terms of 30 days to 180 days. The remaining sales are due immediately after the delivery of goods or provision of services. The ageing analysis of the Group's trade receivables (net of loss allowance for impairment) is as follows:

	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 30 days	207,816	48,961
31 days to 60 days	235,957	113,489
61 days to 180 days	123,016	235,362
Over 180 days and within 1 year	38,542	3,469
Over 1 year	<u>1,923</u>	<u>–</u>
	<u>607,254</u>	<u>401,281</u>

11 TRADE AND OTHER PAYABLES

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

	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 30 days	420,143	358,690
31 days to 60 days	133,842	66,313
Over 60 days	<u>45,198</u>	<u>177,463</u>
	<u>599,183</u>	<u>602,466</u>

BUSINESS REVIEW

Results overview

Revenue of the Group for the six months ended 30 June 2023 amounted to HK\$1,807.0 million, representing an increase of 55.9% when comparing with the corresponding period of last year. Profit attributable to owners of the Company amounted to HK\$552.9 million, representing an increase of 172.1% when comparing with the corresponding period of last year. The basic earnings per share was HK27.24 cents (2022: HK10.01 cents).

Integrated circuits design operation

The Group's integrated circuits design operation comprises the design of smart cards and security chips and the development of application system. Currently, the Group's products are mainly used in the sectors of identity authentication, financial payment, government utilities, telecommunications, Internet of Things and intelligent connected vehicles. For the six months ended 30 June 2023, the Group obtained 18 new patents and registered 1 new software copyright.

The global integrated circuits market demand remained stable in the first half of 2023 and the shortage of integrated circuits production capacity in Mainland China has gradually alleviated. The Group seized the industry opportunities and dynamically adjusted production and sales strategies to meet the market demand for some of the Group's major products which had not been able to meet due to the shortage of integrated circuits production capacity in the past. In addition, the results of the Group's promotion in the Internet of Things and the intelligent connected vehicles secure element chips application markets have gradually surfaced, and the sales volume of eSIM chips, intelligent connected vehicles secure element chips and high-end SIM chips also increased when comparing with the corresponding period of last year. For the six months ended 30 June 2023, the Group's total sales volume increased by 13.7% when comparing with the corresponding period of last year.

In the first half of 2023, the supply and demand relationship began to gradually reverse in the integrated circuit chips market with intensified industry competition, causing the selling price of smart card chips began to gradually decline. However, due to the impact of the shortage of supply of smart card chip products caused by the continuous shortage of integrated circuits production capacity in 2022, the selling prices of some of the Group's major products remained high in the first quarter of 2023, resulting in the increase in the average selling price of the products sold during the period when comparing with the corresponding period of last year, coupled with the impact of the increase in sales volume when comparing with the corresponding period of last year, the Group's revenue for the six months ended 30 June 2023 amounted to HK\$1,807.0 million, representing a significant increase of 55.9% when comparing with the corresponding period of last year.

Benefiting from the increase in the average selling price of some of the Group's major products when comparing with the corresponding period of last year, as well as the optimisation of product mix and effective cost control, the overall gross profit margin for the six months ended 30 June 2023 increased when comparing with the corresponding period of last year.

Selling and marketing costs for the six months ended 30 June 2023 amounted to HK\$26.1 million, representing a decrease of 24.8% when comparing with the corresponding period of last year. The percentage of selling and marketing costs to revenue decreased to 1.4% from 3.0% of the corresponding period of last year. The Group continued to implement stringent cost control measures during the period.

Administrative expenses for the six months ended 30 June 2023 amounted to HK\$207.8 million, representing a decrease of 2.3% when comparing with the corresponding period of last year. The percentage of administrative expenses to revenue was 11.5% (2022: 18.3%). The Group continued to implement stringent cost control measures during the period.

Research and development costs included in the administrative expenses for the six months ended 30 June 2023 amounted to HK\$163.0 million (2022: HK\$158.5 million). The percentage of research and development costs to revenue was 9.0% (2022: 13.7%). Research and development of the Group during the period mainly focused on the research and development of secure element chip and secure microcontroller unit chip series of products, the continuous improvements of the performance of smart card products, research in the application of secure element chips for the Internet of Things sector and the intelligent connected vehicles sector, as well as the development of application systems and solutions.

OUTLOOK

In 2023, the shortage of integrated circuits production capacity in Mainland China has gradually alleviated and the supply shortage of integrated circuit chip products has reversed with increasingly fierce industry competition. The selling prices of integrated circuit chip products will be on a declining trend, which will have repercussions on the Group's operation in the second half of 2023. On the other hand, in view of the extensive application demand in Mainland China integrated circuit chips market, coupled with the rising demand for secure element chips in industries such as intelligent connected vehicles and smart manufacturing, the demand for secure element chips in some innovative sectors will increase, bringing growth opportunities for the Group's secure element chips business.

The Group will closely monitor changes in Mainland China and international market trends and gradually strengthen investment in research and development in the sectors of the Internet of Things and the intelligent connected vehicles secure element chips, optimise product mix and enhance product competitiveness through technological innovation, in order to meet the needs of customers, thereby safeguarding the Group's sustainable and healthy development, and bringing positive returns to shareholders.

DIVIDEND

The Board has resolved not to declare any dividend for the six months ended 30 June 2023 (2022: nil).

FINANCIAL REVIEW

The Group consistently employs a prudent treasury policy and generally finances its working capital requirements through internal resources, and bank and other borrowings. At 30 June 2023, the Group had cash and cash equivalents amounting to HK\$1,216.2 million, of which 99.7% was denominated in Renminbi, 0.2% in United States dollars and 0.1% in Hong Kong dollars (31 December 2022: HK\$1,172.7 million, of which 99.3% was denominated in Renminbi, 0.4% in United States dollars and 0.3% in Hong Kong dollars).

At 30 June 2023, the Group had bank and other borrowings of HK\$596.5 million, all were due within one year and all were denominated in Renminbi (31 December 2022: HK\$615.7 million, all were due within one year and all were denominated in Renminbi). Among these borrowings, (i) all were unsecured (31 December 2022: all were unsecured), and (ii) all were borrowed at fixed interest rates (31 December 2022: all were borrowed at fixed interest rates). At 30 June 2023, committed borrowing facilities available to the Group but not drawn amounted to HK\$864.3 million.

At 30 June 2023, the Group did not pledge any assets as collateral for its borrowings (31 December 2022: nil).

The Group's revenue is mainly denominated in Renminbi and payments are denominated in Renminbi and Hong Kong dollars. The Group will make use of hedging contracts, when appropriate, to hedge the risk of foreign exchange fluctuation arising from its operations.

At 30 June 2023, the Group had net current assets of HK\$1,883.5 million (31 December 2022: HK\$1,538.7 million). The gearing ratio of the Group is calculated as net debt divided by total equity and net debt of the Group. At 30 June 2023 and 31 December 2022, the Group was in net cash position.

At 30 June 2023, the Group did not have any material outstanding capital commitment for the acquisition of fixed assets and intangible assets (31 December 2022: nil). The Group did not have any material contingent liability at 30 June 2023 (31 December 2022: nil).

EMPLOYEE AND REMUNERATION POLICIES

At 30 June 2023, the Group had approximately 410 employees, the majority of whom were based in Mainland China. Employee benefit expenses during the period were HK\$141.9 million.

The Group recognises the importance of high calibre and competent employee and has a strict recruitment policy and performance appraisal scheme. Remuneration policies of employee are largely in line with industry practices, and are formulated on the basis of performance and experience and will be reviewed regularly. Bonuses and other merit payments are linked with the performance of the Group and of the individuals as incentive to optimise performance.

The Group's employee training is divided into three levels: corporate level, departmental level and individual level. Corporate level training focuses mainly on cross-departmental and internal all-purpose trainings, such as new employee trainings, and quality and safety requirements trainings. Departmental level training focuses mainly on enhancing knowledge and skills in departmental professional areas. Trainings for individuals act as a useful supplement to the two types of training above.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares and the Company had not redeemed any of its shares during the six months ended 30 June 2023.

CORPORATE GOVERNANCE CODE

The Company is committed to achieving the best corporate governance practices by emphasising on accountability, transparency, independence, responsibility and fairness. The Company is dedicated to exercise corporate governance through regular reviews of its adopted practices with reference to the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. The Company has complied with all applicable code provisions in the CG Code throughout the six months ended 30 June 2023.

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 2023.

PUBLICATION OF INTERIM REPORT

The 2023 interim report will be published on the website of the Company (www.cecht.com.cn) and on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) in due course.

By Order of the Board
China Electronics Huada Technology Company Limited
Xu Haidong
Chairman

Hong Kong, 30 August 2023

As at the date of this announcement, the Board comprises two Non-executive Directors, namely Mr. Xu Haidong (Chairman) and Ms. Liu Jinmei, two Executive Directors, namely Mr. Chang Feng (Deputy Chairman and Deputy Managing Director) and Ms. Luo Wenjing, and three Independent Non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Chow Chan Lum.