**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 2017 AND PROPOSED APPOINTMENT OF AUDITOR

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 (collectively the "Group") for the year ended 31 December 2017 as follows:

## AUDITED CONSOLIDATED INCOME STATEMENT

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| **Revenue** | **1,453,035** | 1,358,953 |
| Cost of sales | **(952,759)** | (852,858) |
| **Gross profit** | **500,276** | 506,095 |
| Other income and gains – net | **133,175** | 142,647 |
| Selling and marketing costs | **(97,641)** | (101,484) |
| Administrative expenses | **(352,114)** | (411,668) |
| **Operating profit** | **183,696** | 135,590 |
| Finance income | **8,731** | 19,953 |
| Finance costs | **(101,777)** | (188,572) |
| Finance costs – net | **(93,046)** | (168,619) |
| Share of result of associates | **129,874** | 455,513 |
| Share of result of a joint venture | **(2,518)** | 1,039 |
| **Profit before taxation** | **218,006** | 423,523 |
| Taxation | **3,845** | (9,434) |
| **Profit for the year from continuing operations** | **221,851** | 414,089 |
| **Discontinued operation** | | |
| Profit for the year from discontinued operation | **–** | 647,781 |
| **Profit for the year** | **221,851** | 1,061,870 |

## AUDITED CONSOLIDATED INCOME STATEMENT *(Cont'd)*

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| **Profit for the year attributable to:** | | |
| Owners of the Company | **220,097** | 1,061,166 |
| Non-controlling interests | **1,754** | 704 |
| | **221,851** | 1,061,870 |
| **Profit for the year attributable to owners of the Company arises from:** | | |
| Continuing operations | **220,097** | 412,449 |
| Discontinued operation | **–** | 648,717 |
| | **220,097** | 1,061,166 |
| **Dividend** | **60,896** | 60,896 |
| | ***HK cents*** | *HK cents* |
| **Basic earnings per share** | | |
| Continuing operations | **10.84** | 20.32 |
| Discontinued operation | **–** | 31.96 |
| | **10.84** | 52.28 |

## AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| **Profit for the year** | **221,851** | 1,061,870 |
| **Other comprehensive income for the year:** | | |
| 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 | **1,107** | 5,201 |
| Items that may be subsequently reclassified to profit or loss: | | |
| Exchange differences on translation of foreign operations | **181,597** | (77,255) |
| **Total comprehensive income for the year** | **422,157** | 989,816 |
| **Total comprehensive income for the year attributable to:** | | |
| Owners of the Company | **418,642** | 989,918 |
| Non-controlling interests | **3,515** | (102) |
| | **422,157** | 989,816 |
| **Total comprehensive income for the year attributable to owners of the Company arises from:** | | |
| Continuing operations | **418,642** | 349,210 |
| Discontinued operation | **–** | 640,708 |
| | **418,642** | 989,918 |

## AUDITED CONSOLIDATED BALANCE SHEET

| | **31 December 2017** *HK$'000* | 31 December 2016 *HK$'000* |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **420,352** | 429,681 |
| Investment properties | **51,202** | – |
| Land use rights | **12,314** | 11,944 |
| Intangible assets | **2,869** | 5,958 |
| Investment in associates | **2,782,326** | 2,449,780 |
| Investment in a joint venture | **4,106** | 6,406 |
| Deferred tax assets | **40,980** | 16,965 |
| Available-for-sale financial assets | **–** | 7,267 |
| | **3,314,149** | 2,928,001 |
| **Current assets** | | |
| Inventories | **406,085** | 257,010 |
| Trade and other receivables | **767,270** | 964,736 |
| Available-for-sale financial assets | **202,485** | 37,249 |
| Short-term deposits and investments | **11,000** | 127,601 |
| Cash in transit | **–** | 866,754 |
| Cash and cash equivalents | **373,831** | 911,917 |
| | **1,760,671** | 3,165,267 |
| **Total assets** | **5,074,820** | 6,093,268 |

## AUDITED CONSOLIDATED BALANCE SHEET *(Cont'd)*

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **EQUITY AND LIABILITIES** | | |
| **Equity attributable to owners of the Company** | | |
| Share capital and premium | **825,454** | 825,454 |
| Reserves | **(551,812)** | (768,398) |
| Retained earnings | **1,751,880** | 1,610,720 |
| | **2,025,522** | 1,667,776 |
| **Non-controlling interests** | **16,388** | 12,873 |
| **Total equity** | **2,041,910** | 1,680,649 |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Deferred tax liabilities | **14,126** | 7,812 |
| **Current liabilities** | | |
| Deferred government grants | **31,863** | 34,532 |
| Advances from customers | **10,462** | 3,132 |
| Trade and other payables | **634,801** | 792,072 |
| Unsecured corporate bonds | **–** | 3,069,502 |
| Bank and other borrowings | **2,314,473** | 477,621 |
| Income tax payable | **27,185** | 27,948 |
| | **3,018,784** | 4,404,807 |
| **Total liabilities** | **3,032,910** | 4,412,619 |
| **Total equity and liabilities** | **5,074,820** | 6,093,268 |

## 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.

On 2 August 2017, the Company changed its English name from "China Electronics Corporation Holdings Company Limited" to "China Electronics Huada Technology Company Limited", and adopted a new Chinese name "中國電子華大科技有限公司" as its secondary name in Bermuda to replace its existing Chinese name "中國電子集團控股有限公司".

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 ("HKFRS") 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"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and certain available-for-sale financial assets which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS 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 2017, the Group had adopted the following amended standards that are relevant to its operations and effective for the accounting period beginning on 1 January 2017:

| | |
|---|---|
| HKAS 7 (amendments) | Disclosure initiative |
| HKAS 12 (amendments) | Recognition of deferred tax assets for unrealised losses |

The adoption of the above amended standards did not have significant impact on the results or financial position of the Group for the current year.

The following new and amended standards that are relevant to the operation of the Group have been issued but are not effective for the accounting period beginning on 1 January 2017 and have not been early adopted:

| | |
|---|---|
| HKFRS 9 | Financial instruments (effective from 1 January 2018) |
| HKFRS 15 | Revenue from contracts with customers (effective from 1 January 2018) |
| HKAS 40 (amendments) | Transfers of investment property (effective from 1 January 2018) |
| HKFRS 16 | Leases (effective from 1 January 2019) |
| HKFRS 10 and HKAS 28 (amendments) | Sale or contribution of assets between an investor and its associate or joint venture (effective date not yet determined) |

Management is currently assessing the impact of the above new and amended standards to the Group's financial position and performance.

Material impact on the Group's financial position and performance on the adoption of HKFRS 9 Financial instruments, HKFRS 15 Revenue from contracts with customers and HKAS 40 (amendments) Transfers of investment property for the accounting period beginning on 1 January 2018 is set out below:

***HKFRS 9 Financial instruments***

The Group's financial assets that are currently classified as available-for-sale financial assets will satisfy the conditions for classification as financial assets measured at fair value through other comprehensive income ("FVOCI"). Gains or losses realised on disposal of financial assets measured at FVOCI will no longer be recognised in profit or loss, but instead reclassified below the line from the FVOCI reserve to retained earnings. For the year ended 31 December 2017, HK$3,565,000 of such gains were recognised in profit or loss in relation to the disposal of available-for-sale financial assets.

(c) **Going concern**

As at 31 December 2017, the Group's current liabilities exceeded its current assets by HK$1,258,113,000 primarily due to the fact that the Group has liabilities under short-term bank and other borrowings (the "Short-term Borrowings") of HK$2,314.5 million. The Short-term Borrowings of HK$2,242.6 million are guaranteed by CEC.

The Board has reviewed the Group's cash flow projections which covers a period of not less than twelve months from 31 December 2017. Given that the Short-term Borrowings of HK$2,242.6 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 2017. Accordingly, the Board has prepared the consolidated financial statements on a going concern basis.

**REVENUE AND SEGMENT INFORMATION**

(a) **Revenue**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| Sale of integrated circuit products | **1,453,035** | 1,358,953 |
| **Discontinued operation** | | |
| Rental income from investment properties | **–** | 19,008 |
| | **1,453,035** | 1,377,961 |

(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.

In prior years, the Group was engaged in the following two operating segments:

– Design and sale of integrated circuit chips; and

– Development and management of electronic information technology industrial parks.

The development and management of electronic information technology industrial parks operating segment was disposed of on 30 June 2016 and was classified as discontinued operation of the Group accordingly.

The Board considers that the Group's continuing operations are operated and managed as a single segment, accordingly no segment information is presented for the continuing operations for the year ended 31 December 2017.

The segment revenue and results for the year ended 31 December 2016 are as follow:

| | Continuing operations – Design and sale of integrated circuit chips *HK$'000* | Discontinued operation – Development and management of electronic information technology industrial parks *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Segment revenue | | | |
| Sale of integrated circuit products | 1,358,953 | – | 1,358,953 |
| Rental income from investment properties | – | 19,008 | 19,008 |
| | 1,358,953 | 19,008 | 1,377,961 |
| Share of result of a joint venture | 1,039 | – | 1,039 |
| Fair value gains on investment properties | – | 45,395 | 45,395 |
| (Impairment provision)/reversal of impairment provision | (47,350) | 312 | (47,038) |
| Depreciation and amortisation expenses | (52,806) | – | (52,806) |
| Gain on disposal of the discontinued operation | – | 620,794 | 620,794 |
| Segment results | 125,074 | 655,784 | 780,858 |
| Share of result of an associate | | | 455,513 |
| Unallocated corporate interest income | | | 76,598 |
| Unallocated corporate expenses | | | (41,507) |
| Finance costs – net | | | (170,326) |
| Profit before taxation | | | 1,101,136 |

Unallocated corporate income and expenses are common income and expenses generated from the operating segments as a whole and therefore they are not included in the measure of the segments' performance.

Revenues of HK$367,263,000 and HK$166,871,000 (2016: HK$296,322,000 and HK$164,778,000), respectively, are derived from 2 (2016: 2) external customers of the Group. These revenues are attributable to the operating segment of design and sale of integrated circuit chips. Save as disclosed herein, no revenue derived from a single external customer have 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 AND GAINS – NET**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| Government grants | **20,711** | 95,048 |
| Gain on disposal of a business *(Note(a))* | **102,510** | – |
| Exchange gains/(losses) | **3,356** | (4,937) |
| Interest income on short-term deposits and investments | **720** | 2,059 |
| Interest income on entrusted loans | **–** | 48,502 |
| Gains on disposal of available-for-sale financial assets | **3,565** | 2,501 |
| Rental income | **1,217** | – |
| Others | **1,096** | (526) |
| | **133,175** | 142,647 |
| **Discontinued operation** | | |
| Government grants | **–** | 2,371 |
| Fair value gains on investment properties | **–** | 45,395 |
| Interest income on entrusted loans | **–** | 23,249 |
| Interest income on available-for-sale financial assets | **–** | 287 |
| Others | **–** | (29) |
| | **–** | 71,273 |

(a) On 3 March 2017, CEC Huada Electronic Design Co., Ltd ("Huada Electronics") entered into an agreement to dispose of its navigation chips business for a cash consideration of RMB100,000,000 to Shenzhen Huada Beidou Technology Company Limited (the "Business Transfer"). The Business Transfer was completed in May 2017. The Group recognised a gain before taxation of HK$102,510,000.

## EXPENSES BY NATURE

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

| | 2017 | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| Depreciation and amortisation expenses | **44,824** | 52,806 |
| Employee benefit expenses | **178,664** | 261,315 |
| Changes in inventories of finished goods and work in progress | **149,075** | 39,355 |
| Raw materials and consumables used | **797,480** | 783,275 |
| Provision for impairment of trade and other receivables | **19,258** | 16,947 |
| Provision for inventories | **12,056** | 30,403 |
| Operating lease expenses on properties | **17,111** | 20,136 |
| Auditor's remuneration | **2,621** | 3,712 |
| **Discontinued operation** | | |
| Employee benefit expenses | **–** | 14,140 |
| Reversal of provision for impairment of trade and other receivables | **–** | (312) |
| Operating lease expenses on properties | **–** | 175 |

Research and development costs for the continuing operations for the year ended 31 December 2017 were HK$224,869,000 (2016: HK$276,801,000) and mainly comprised of employee costs of HK$122,815,000 (2016: HK$158,638,000) and material costs of HK$34,593,000 (2016: HK$44,683,000). No research and development costs were capitalised during the year ended 31 December 2017 (2016: nil).

## FINANCE COSTS – NET

| | 2017 | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| Finance costs: | | |
| – Interest expense on borrowings | **101,777** | 188,572 |
| Finance income: | | |
| – Interest income on cash and cash equivalents | **(8,731)** | (19,953) |
| Finance costs – net | **93,046** | 168,619 |
| **Discontinued operation** | | |
| Finance costs: | | |
| – Interest expense on borrowings | **–** | 3,703 |
| *Less:* Amounts capitalised on properties under development *(Note (a))* | **–** | (1,496) |
| | **–** | 2,207 |
| Finance income: | | |
| – Interest income on cash and cash equivalents | **–** | (500) |
| Finance costs – net | **–** | 1,707 |

(a) The capitalisation rate applied to funds borrowed generally and used for the qualifying assets was 5.25% for the year ended 31 December 2016.

## TAXATION

| | 2017 | 2016 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Continuing operations** | | |
| Current taxation | | |
| – PRC corporate income tax | **13,379** | 546 |
| – Withholding tax on distributed profits *(Note (c))* | **1,734** | – |
| | **15,113** | 546 |
| Deferred taxation | | |
| – PRC corporate income tax | **(22,057)** | 5,474 |
| – Withholding tax on undistributed profits *(Note (c))* | **3,099** | 3,414 |
| | **(18,958)** | 8,888 |
| | **(3,845)** | 9,434 |
| **Discontinued operation** | | |
| Current taxation | | |
| – PRC corporate income tax | **–** | 201 |
| – Withholding tax on disposal of the discontinued operation | **–** | 14,385 |
| | **–** | 14,586 |
| Deferred taxation | | |
| – PRC corporate income tax | **–** | 15,246 |
| | **–** | 29,832 |

(a) No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profit in Hong Kong during the year (2016: nil).

(b) In accordance with the corporate income tax laws of the PRC, the applicable statutory tax rate of Huada Electronics and Shanghai Huahong Integrated Circuit Co., Ltd ("Huahong") is 25%. However, Huada Electronics qualified as an "Integrated Circuit Design Enterprises in National Planning Layout" ("ICDE") and Huahong qualified as a "High and New Technology Enterprise" ("HNTE") and thus enjoyed a 10% and a 15% preferential tax rate, respectively, for the year ended 31 December 2017. Based on management's self-assessment and their track record of success in obtaining such qualifications, it is highly likely that Huada Electronics and Huahong will continue to qualify as an ICDE and a HNTE, respectively, after the year ended 31 December 2017.

(c) According to the relevant regulations of the corporate income tax laws of the PRC, when a foreign investment enterprise distributed 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 are as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| Profit before taxation | **218,006** | 423,523 |
| Calculated at respective applicable statutory tax rates | **53,918** | 79,742 |
| Effect of tax concession | **(5,834)** | (5,499) |
| Research and development costs additional deductions | **(20,793)** | (26,320) |
| Income not subject to tax | **(21,912)** | (75,331) |
| Expenses not deductible for taxation purposes | **1,337** | 6,016 |
| Effect of change in tax rate on deferred taxation | **–** | 8,147 |
| Temporary differences for which no deferred tax asset was recognised | **–** | 5,865 |
| Recognition of deferred tax assets for previous year's tax losses | **(10,698)** | – |
| Utilisation of previously temporary differences for which no deferred tax asset was recognised | **(30,817)** | (14,905) |
| Withholding tax on distributed profits and current year's undistributed profits | **6,567** | 3,414 |
| Tax losses for which no deferred tax asset was recognised | **24,387** | 36,576 |
| Over-provision in prior years | **–** | (8,271) |
| Taxation expense | **(3,845)** | 9,434 |

| | 2017 | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Discontinued operation** | | |
| Profit before taxation | – | 677,613 |
| Calculated at respective applicable statutory tax rates | – | 169,403 |
| Income not subject to tax | – | (154,377) |
| Withholding tax on disposal of the discontinued operation | – | 14,385 |
| Expenses not deductible for taxation purposes | – | 421 |
| Taxation expense | – | 29,832 |

**DISCONTINUED OPERATION**

In December 2015, the Group entered into agreements to dispose of its 100% equity interest in China Electronics Technology Development Co., Ltd ("CEC Technology") to China Electronics Optics Valley Union Holding Company Limited ("CEOVU") for a consideration of 1,058,530,083 new ordinary shares of CEOVU and subscribe 1,491,469,917 new ordinary shares of CEOVU for HK$1,193,175,934 in cash (the "Transaction"). The Transaction was completed on 30 June 2016 and the operation of CEC Technology and its subsidiaries was classified as discontinued operation of the Group accordingly.

For the year ended 31 December 2016, the profit of the discontinued operation was HK$647,781,000.

**DIVIDEND**

| | 2017 | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Proposed dividend | **60,896** | 60,896 |

The Board recommends the payment of a dividend of HK3.0 cents per share for the year ended 31 December 2017 (2016: HK3.0 cents per share). Subject to approval by the shareholders of the Company at the forthcoming annual general meeting (the "Forthcoming AGM"), the dividend will be distributed on or about 31 July 2018. The proposed dividend of HK$60,896,000 (2016: 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:

| | **2017** | 2016 |
|---|---|---|
| **Continuing operations** | | |
| Profit for the year from continuing operations attributable to owners of the Company *(HK$'000)* | **220,097** | 412,449 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **2,029,872,000** | 2,029,872,000 |
| Basic earnings per share *(HK cents)* | **10.84** | 20.32 |
| **Discontinued operation** | | |
| Profit for the year from discontinued operation attributable to owners of the Company *(HK$'000)* | **–** | 648,717 |
| 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)* | **–** | 31.96 |
| **Continuing and discontinued operations** | | |
| Profit for the year attributable to owners of the Company *(HK$'000)* | **220,097** | 1,061,166 |
| 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)* | **10.84** | 52.28 |

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

**TRADE RECEIVABLES**

Included in trade and other receivables are trade receivables of HK$727,675,000 (2016: HK$895,515,000). 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 trade receivables (net of provision for impairment) based on revenue recognition date is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current to 30 days | **208,398** | 161,025 |
| 31 – 60 days | **62,798** | 155,766 |
| 61 – 180 days | **256,138** | 387,025 |
| Over 180 days and within 1 year | **106,934** | 68,299 |
| Over 1 year | **93,407** | 123,400 |
| | **727,675** | 895,515 |

**TRADE PAYABLES**

Included in trade and other payables are trade payables of HK$415,738,000 (2016: HK$335,416,000) and their ageing analysis mainly based on the date of invoices is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current to 30 days | **205,936** | 201,178 |
| 31 – 60 days | **90,051** | 67,798 |
| Over 60 days | **119,751** | 66,440 |
| | **415,738** | 335,416 |

## BUSINESS REVIEW

### Results overview

During the year, the Group's continuing operations comprised the design and sale of integrated circuit chips. The Group discontinued its development and management of electronic information technology industrial parks operation in June 2016. The analysis below reports only on the continuing operations of the Group.

Revenue of the Group for the year ended 31 December 2017 amounted to HK$1,453.0 million, representing an increase of 6.9% when comparing with the corresponding period of last year. Profit attributable to owners of the Company amounted to HK$220.1 million, representing a decrease of 79.3% when comparing with the corresponding period of last year. The decrease in profit was primarily attributable to (i) the recognition by the Group of an one-off gain of HK$620.8 million arising from the disposal of CEC Technology and the subscription of new shares in CEOVU for the year ended 31 December 2016; and (ii) the recognition by the Group of an one-off accounting gain representing negative goodwill of HK$409.4 million arising from the acquisition of 31.88% interest in CEOVU for the year ended 31 December 2016. The basic earnings per share was HK10.84 cents (2016: HK52.28 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 2017, the Group has obtained 78 new patents, registered 9 new computer software copyrights, and registered 9 new integrated circuits layout designs.

In 2017, the global smart cards market entered into a steady development stage, and the domestic smart card chips market was highly competitive. Driven by the policy on the issuance of state cryptographic algorithm powered bank cards, the market demand for domestic financial payment chips grew continuously, and coupled with the Group's successful participation in bank card projects of various major domestic banks, market share of and sales volume of the financial payment chips of the Group increased significantly when comparing with the corresponding period of last year. Meanwhile, as the demand increased, sales volume of the identity authentication chips increased when comparing with the corresponding period of last year. On the other hand, due to the constraint of the foundry manufacturers' production capacities, the Group's supply of telecommunication and mobile payment chips was in shortage, leading to a slight drop in the sales volume of the Group's telecommunication and mobile payment chips despite rising demand in the overseas market. As the domestic social security cards issuance coverage rate has increased in recent years, the demand for new cards has decreased, and sales volume of the domestic social security cards has dropped slightly when comparing with the corresponding period of last year. For the year ended 31 December 2017, overall sales volume of the Group increased slightly by 1.7% when comparing with the corresponding period of last year. Since the types of smart card chips that recorded growth for the year ended 31 December 2017 were mainly products with higher unit price, the impact of the general decrease in selling prices of smart card chips when comparing with the corresponding period of last year caused by further intensified competition in market price on the revenue of the year was compensated. Revenue of the Group for the year ended 31 December 2017 was HK$1,453.0 million, representing an increase of 6.9% when comparing with the corresponding period of last year.

With the intensified competition in the market of financial payment chips and telecommunication and mobile payment chips, selling price of these products dropped in general as compared with those in 2016. In addition, the cost of production of smart card chips remains to be high due to the rising cost of raw materials and the constraint of the foundry manufacturers' production capacities. All these factors have led to a decrease in the Group's overall gross profit margin in 2017 to 34.4% (2016: 37.2%).

Selling and marketing costs for the year ended 31 December 2017 amounted to HK$97.6 million (2016: HK$101.5 million). As a percentage to revenue, selling and marketing costs decreased to 6.7% from 7.5% of the corresponding period of last year. The main reason for the decrease in 2017 was the continuous implementation of the reorganisation of the Group's personnel structure and the disposal of its navigation chips business, decrease in marketing staff, and the implementation of stringent cost control measures during the year.

Administrative expenses for the year ended 31 December 2017 amounted to HK$352.1 million, representing a decrease of 14.5% when comparing with the corresponding period of last year, which was primarily due to the decrease in research and development costs during the year. In 2017, the Group continued to implement the integration and centralised planning of resources for research and development, disposed of its navigation chips business and implemented stringent cost control measures, resulting in a decrease in the research and development costs as a percentage of the revenue.

Research and development costs for the year ended 31 December 2017 was HK$224.9 million (2016: HK$276.8 million), which represented 15.5% of the revenue for the year ended 31 December 2017 (2016: 20.4%). Research and development during the year primarily focused on areas such as the continuous running-in of existing process, 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 and the development of application systems and solutions.

**Other income and gains**

For the year ended 31 December 2017, the Group disposed of its navigation chips business and recognised a gain before taxation of HK$102.5 million.

Government grants recognised as income decreased by 78.2% to HK$20.7 million for the year ended 31 December 2017 resulted from less government subsidies received for research and development costs incurred in the year.

**Share of result of an associate**

CEOVU, our 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 2017 was HK$124.1 million, representing a decrease of 72.7% when comparing with the corresponding period of last year, which was primarily due to the recognition by the Group of an one-off accounting gain representing negative goodwill of HK$409.4 million arising from the acquisition of 31.88% interest in CEOVU for the year ended 31 December 2016.

## OUTLOOK

Looking into 2018, facing intensified competition across the domestic and overseas integrated circuits industry, a relatively large market capacity of domestic financial payment chips resulting from the implementation of national policies, and the impacts of the constraint of the domestic foundry manufacturers' production capacities, the Group will closely act upon the national policies and track the market demands, seize the opportunity of the financial payment chips market, actively explore the domestic and overseas potential customers in industries and enterprises, strengthen the construction of sales channels and expand its scale of sales. In addition, the Group will capitalise on the trading relationship established with countries along the route of the "Belt and Road Initiative", and step up its efforts in developing the international market through actively launching promotion of the Group's security smart card chips to these countries, and emphasise on the new business layout that could drive our 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 independently developed security technology, smart card chips design technology and application technology accumulated over the years 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, as well as applications for industries such as smart cities, smart manufacturing, smart transportation, smart home, and automotive electronics in a progressive manner, and continuously strive to enhance its core competitiveness in the industry and the market of Internet of Things. In addition, the Group will also actively strengthen its strategic co-operation with foundry manufacturers and optimise the processing flows of its supply chain to ensure its production capacity and lower its production cost, and strive to become a world leading supplier of smart cards and security chips for Internet of Things.

## FINANCIAL RESOURCES AND LIQUIDITY

The Group generally finances its working capital and funding requirements through internal resources, bank and other borrowings, and issuance of corporate bonds. At 31 December 2017, the Group had cash and cash equivalents amounted to 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 (2016: HK$911.9 million, of which 93.0% was denominated in Renminbi, 6.4% in Hong Kong dollars and 0.6% in United States dollars).

At 31 December 2017, the Group had bank and other borrowings of HK$2,314.5 million, of which 95.6% were denominated in Renminbi and 4.4% in Hong Kong dollars (2016: HK$477.6 million, of which 74.8% were denominated in Renminbi and 25.2% in Hong Kong dollars). Among these borrowings, (i) all were unsecured (2016: HK$120.2 million were secured by short-term deposits of the Group and HK$357.4 million were unsecured), and (ii) HK$2,214.5 million and HK$100.0 million were borrowed at fixed and variable interest rates respectively (2016: HK$357.3 million and HK$120.3 million were borrowed at fixed and variable interest rates respectively). At 31 December 2017, committed borrowing facilities available to the Group but not drawn amounted to HK$1,124.4 million.

In January 2017, the Company redeemed the 4.70% unsecured bonds due 2017 in the principal amount of RMB2,750.0 million in full.

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 2017, the Group had net current liabilities of HK$1,258.1 million (2016: HK$1,239.5 million). The gearing ratio, which is calculated as net debt divided by total equity and net debt of the Group, was 48.7% (2016: 61.1%).

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2017, the Group did not have any material outstanding capital commitment (2016: nil) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liability at 31 December 2017 (2016: nil).

## EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2017, the Group had approximately 360 employees, the majority of whom were based in the PRC. Employee benefit expenses for the year were HK$178.7 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 2017.

## 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 2017.

## 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 2017.

## SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's audited consolidated income statement, audited consolidated statement of comprehensive income, audited consolidated balance sheet and the related notes thereto for the year ended 31 December 2017 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 PricewaterhouseCoopers on the results announcement.

## PUBLICATION OF ANNUAL REPORT

The 2017 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

According to the relevant regulations issued by the Ministry of Finance of the PRC and the State-owned Assets Supervision and Administration Commission of the State Council of the PRC regarding the audit work on financial statements of state-owned enterprises, there are restrictions in respect of the number of years of audit services that an accounting firm can continuously provide to a state-owned enterprise and its subsidiaries (the "Auditor Rotation Requirements"). The Company is a subsidiary of CEC which is a state-owned enterprise. Since the number of years that the Company has continuously engaged its existing auditor, PricewaterhouseCoopers, has reached the prescribed time limit, PricewaterhouseCoopers will retire as auditor of the Company with effect from the close of the Forthcoming AGM and the Company will not re-appoint them due to the Auditor Rotation Requirements.

The Board resolved, with the recommendation of the audit committee, to propose the appointment of Ernst & Young as the auditor of the Company for the year ending 31 December 2018 and such appointment is subject to the approval of the shareholders of the Company at the Forthcoming AGM.

The Board is not aware of any disagreement between PricewaterhouseCoopers and the Company. PricewaterhouseCoopers has not issued any confirmation on whether there are any matters that need to be brought to the attention of the shareholders of the Company regarding its retirement at the Forthcoming AGM, due to the Company being incorporated in the Cayman Islands and continued in Bermuda and Bermuda law does not require such confirmation from a retiring auditor. 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, 26 March 2018

*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. Jiang Juncheng (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.*