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LEADWAY TECH

高維科技

Leadway Technology Investment Group Limited
高維科技投資集團有限公司

(formerly known as HNA Technology Investments Holdings Limited 海航科技投資控股有限公司)

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2086)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022

HIGHLIGHTS

- For the six months ended 30 June 2022, revenue of the Group increased by 25% to HK\$45.3 million (six months ended 30 June 2021: HK\$36.3 million).
- For the six months ended 30 June 2022, profit for the period of the Group was HK\$0.1 million (six months ended 30 June 2021: loss of HK\$10.9 million).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022.

RESULTS

The board of directors (the “Board”) of Leadway Technology Investment Group Limited (formerly known as HNA Technology Investments Holdings Limited) (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2022 together with the comparative unaudited figures for the corresponding period in 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022 – unaudited

(Expressed in Hong Kong dollars)

		Unaudited	
		six months ended 30 June	
	Note	2022	2021
		\$'000	\$'000
Revenue	3	45,270	36,250
Cost of sales		<u>(21,768)</u>	<u>(15,981)</u>
Gross profit		23,502	20,269
Other income		1,192	313
Selling and distribution costs		(2,277)	(3,554)
Research and development expenses		(6,594)	(11,031)
Administrative expenses		<u>(15,575)</u>	<u>(16,060)</u>
Profit/(loss) from operations		248	(10,063)
Finance costs	4(a)	<u>(120)</u>	<u>(217)</u>
Profit/(loss) before taxation	4	128	(10,280)
Income tax	5	<u>–</u>	<u>(609)</u>
Profit/(loss) for the period attributable to the equity shareholders of the Company		<u>128</u>	<u>(10,889)</u>
Earnings/(loss) per share	6		
Basic		0.040 cents	(3.407 cents)
Diluted		<u>0.040 cents</u>	<u>(3.407 cents)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022 – unaudited

(Expressed in Hong Kong dollars)

	Unaudited	
	six months ended 30 June	
	2022	2021
	\$'000	\$'000
Profit/(loss) for the period	128	(10,889)
Other comprehensive income for the period (after tax)		
<i>Items that may be reclassified subsequently</i> <i>to profit or loss:</i>		
Exchange differences on translation of financial statements of foreign operations	<u>(1,587)</u>	<u>1,544</u>
Total comprehensive income for the period	<u>(1,459)</u>	<u>(9,345)</u>
Attributable to:		
Equity shareholders of the Company	<u>(1,459)</u>	<u>(9,345)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 – unaudited

(Expressed in Hong Kong dollars)

	<i>Note</i>	Unaudited 30 June 2022 \$'000	Audited 31 December 2021 \$'000
Non-current assets			
Property, plant and equipment		5,546	8,122
Intangible assets		5,327	4,165
Defined benefits obligations		240	307
		<u>11,113</u>	<u>12,594</u>
Current assets			
Inventories		22,918	20,202
Trade and other receivables	7	16,866	16,569
Other financial assets		225	231
Current tax recoverable		552	560
Cash and cash equivalents		43,731	51,543
		<u>84,292</u>	<u>89,105</u>
Current liabilities			
Trade and other payables	8	11,752	14,467
Lease liabilities		3,345	3,900
		<u>15,097</u>	<u>18,367</u>
Net current assets		<u>69,195</u>	<u>70,738</u>
Total assets less current liabilities		<u>80,308</u>	<u>83,332</u>
Non-current liabilities			
Lease liabilities		325	1,890
		<u>325</u>	<u>1,890</u>
NET ASSETS		<u>79,983</u>	<u>81,442</u>
CAPITAL AND RESERVES			
Share capital		31,956	31,956
Reserves		48,027	49,486
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<u>79,983</u>	<u>81,442</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial results has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim financial results is unaudited but has been reviewed by the audit committee of the Company and it was authorised for issue on 24 August 2022.

The interim financial results has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of interim financial results in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial results contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial results and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial results as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has only presented one reportable segment. No operating segments have been aggregated to form the reportable segment. The financial technology and smart living business mainly represents the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of customers is as follows:

	Six months ended 30 June	
	2022	2021
	\$'000	\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major product or service lines		
– Sale of smart card products and provision of related services	45,270	36,250
	<u><u>45,270</u></u>	<u><u>36,250</u></u>
Disaggregated by geographical location of customers		
– Mainland China, Hong Kong, Macau and Taiwan	6,626	6,975
– The Russian Federation (“Russia”)	5,369	2,101
– Italy	3,652	1,429
– United States of America	3,364	3,549
– Germany	2,911	2,321
– Turkey	2,902	4,757
– Other countries	20,446	15,118
	<u>38,644</u>	<u>29,275</u>
	<u><u>45,270</u></u>	<u><u>36,250</u></u>

(b) **Information about profit or loss, assets and liabilities**

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segment as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Financial technology and smart living	
For the six months ended	2022	2021
	\$'000	\$'000
Disaggregated by timing of revenue recognition		
Point in time	45,035	36,235
Over time	235	15
	<hr/>	<hr/>
Reportable segment revenue	45,270	36,250
	<hr/> <hr/>	<hr/> <hr/>
Reportable segment profit/(loss) from operations	128	(10,280)
	<hr/> <hr/>	<hr/> <hr/>
As at 30 June/31 December		
Reportable segment assets	95,405	101,699
	<hr/> <hr/>	<hr/> <hr/>
Reportable segment liabilities	15,422	20,257
	<hr/> <hr/>	<hr/> <hr/>

The measure used for reporting segment profit/(loss) is "profit/(loss) from operations".

4 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Six months ended 30 June	
	2022	2021
	\$'000	\$'000
Interest on lease liabilities	<u>120</u>	<u>217</u>

(b) Other items

	Six months ended 30 June	
	2022	2021
	\$'000	\$'000
Amortisation of intangible assets	1,738	3,431
Depreciation		
– owned property, plant and equipment	910	1,672
– right-of-use assets	2,026	1,999
Government subsidies income*	(1,039)	(178)
Impairment losses on trade receivables	–	23
(Reversal)/recognition on write down of inventories	(34)	21
Interest income	<u>(96)</u>	<u>(64)</u>

* The government subsidies granted to the Group during the six months ended 30 June 2022 mainly comprised the followings:

- (i) The Group successfully applied for research and development subsidy from Shenzhen Government of The People's Republic of China ("PRC") of \$243,000 (six months ended 30 June 2021: \$162,000). The purpose of the subsidy is to encourage innovation by granting financial assistance to commercial entities whose research and development projects meet certain criteria; and
- (ii) The Group successfully applied for 2022 Employment Support Scheme subsidy of \$752,000 (six months ended 30 June 2021: \$nil) granted by the Hong Kong government under the anti-epidemic fund. The purpose of the subsidy is to provide financial support to employers to retain their current employees or even employ more staff when the business revives as soon as the epidemic situation permits.

5 INCOME TAX

	Six months ended 30 June	
	2022	2021
	\$'000	\$'000
Current tax – Philippines Income Tax		
Under-provision in respect of prior years	–	45
Deferred taxation	–	564
Income tax expense	<u>–</u>	<u>609</u>

Notes:

- (i) The provision for Hong Kong Profits Tax is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the period except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first \$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2021.

- (ii) The provision for Philippines Income Tax for the period is calculated at 30% (2021: 30%) of the estimated taxable income or 2% (2021: 2%) on gross income incurred, whichever is higher, in accordance with the National Internal Revenue Code of the Republic of the Philippines.

- (iii) In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance notes, the statutory income tax rate applicable to the Company's subsidiaries in the PRC is 25%, except for the following companies:

- (a) Logyi Limited (“Logyi”)

Logyi was granted the “small and micro sized enterprise” status and enjoys the preferential corporate income tax rate of 10% from 2018 onwards.

- (b) ACS Technologies (Shenzhen) Limited (“ACS Shenzhen”)

ACS Shenzhen was granted the “high and new technology enterprise” status and enjoys the preferential corporate income tax rate of 15% for three years between 2021 and 2023.

6 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on profit attributable to ordinary equity shareholders of the Company of \$128,000 (six months ended 30 June 2021: loss of \$10,889,000) and the weighted average of 319,565,000 (six months ended 30 June 2021: 319,565,000) ordinary shares in issue for the six months ended 30 June 2022.

(b) Diluted earnings/(loss) per share

Diluted loss per share for the six months ended 30 June 2022 and 2021 are the same as the basic earnings/(loss) per share as there are no dilutive potential ordinary shares.

7 TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2022	2021
	\$'000	\$'000
Trade receivables, net of loss allowance	12,157	12,499
Prepayments	1,163	945
Deposits paid	2,345	2,390
Other receivables	1,201	735
	16,866	16,569

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	30 June	31 December
	2022	2021
	\$'000	\$'000
Within 1 month	6,691	6,691
1 to 2 months	1,742	3,705
2 to 3 months	2,304	1,977
3 to 12 months	1,420	126
	12,157	12,499

Trade receivables are generally due within 7 days to 3 months from the date of billing.

8 TRADE AND OTHER PAYABLES

	30 June	31 December
	2022	2021
	\$'000	\$'000
Trade payables	7,151	9,166
Accruals	2,317	3,687
Receipt in advance from customers	2,284	1,614
	<hr/>	<hr/>
	11,752	14,467
	<hr/> <hr/>	<hr/> <hr/>

As of the end of the reporting period, the ageing of trade payables, based on the invoice date, is as follows:

	30 June	31 December
	2022	2021
	\$'000	\$'000
Within 1 month	6,085	6,077
1 to 3 months	1,062	3,048
3 months to 1 year	4	41
	<hr/>	<hr/>
	7,151	9,166
	<hr/> <hr/>	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read alongside the unaudited consolidated financial results of the Group for the six months ended 30 June 2022 (the “Interim Period”).

FINANCIAL REVIEW

Revenue

Revenue increased by 25%, from HK\$36.3 million for the corresponding period in 2021 to HK\$45.3 million for the Interim Period, fuelled by the increase of products sales. The increase was mainly due to the improvement in global supply of integrated circuit chips, and the relieve of overseas control measures for novel coronavirus disease (“COVID-19”) so more national-based government projects resume normal operation.

Gross Profit Margin

Gross profit margin was 52% for the Interim Period (2021: 56%), the decrease was mainly due to the increase of material cost and lower gross profit margin for some old customers in order to maintain the relationship with them during this economic downturn period.

Operating Expenses

Total operating expenses decreased by 20%, from HK\$30.6 million for the corresponding period in 2021, to HK\$24.4 million for the Interim Period. The depreciation of Renminbi against Hong Kong dollar during the Interim Period resulted in a decrease of Renminbi denominated payable balances, whereas appreciation of Renminbi against Hong Kong dollar was noted during the corresponding period in 2021. This lead to a decrease in exchange difference of HK\$3.1 million included in operating expenses. Furthermore, depreciation of property, plant and equipment and amortisation of intangible assets decreased by HK\$2.4 million due to the fact that there were less depreciable property, plant and equipment and intangible assets during the Interim Period. Certain effectively cost control measures carried out during the Interim Period also successfully reduced the operating expenses.

Profit for the period

A profit of HK\$0.1 million was recorded for the Interim Period, a turnaround from the loss of HK\$10.9 million for the corresponding period in 2021. The significant improvement in interim results was mainly attributable to the improvement in revenue and gross profit due to increase of products sales, as well as reduction of operating expenses during the Interim Period.

Statement of Financial Position

As at 30 June 2022, the Group's net assets amounted to HK\$80.0 million (31 December 2021: HK\$81.4 million). The decrease of HK\$1.4 million was due to the net profit of HK\$0.1 million offsetted with movement in exchange reserve of HK\$1.5 million for the Interim Period.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the Interim Period.

BUSINESS REVIEW

The Group had a steadily growth in the first half of 2022, despite a turbulent macro backdrop and the ongoing pandemic. During the Interim Period, the Group continued to focus on products development and keep looking for opportunities in developing countries by expanding our market shares. We received positive customer response with the newly launch of ACR350 Payment Terminal for transportation during the Interim Period.

Notwithstanding the above, our business was affected by the geopolitical tensions. Our European customers have tendency putting their purchase plan on-hold due to the war between Russia and Ukraine. Euro currency fluctuations also affect desire of customers to purchase new devices.

In order to better reflect the change of control of the Group, the Company's English name changed to "Leadway Technology Investment Group Limited" and the Company's Chinese name changed to "高維科技投資集團有限公司". The new names provide the Group with a more appropriate corporate image and identity which benefit the Group's future business development and is in the best interests of the Group and its shareholders as a whole.

PROSPECTS

Ongoing geopolitical tensions and the emergence of mutated viruses of COVID-19 will be two of the challenges shaping the year ahead. But the opportunities in terms of the growing trend of contactless payment, diversifying and upgrading our products offering all present opportunities for us.

In the second half of 2022, the Group will launch three new products including:

- ACR40T SIM Card Reader, the next generation small size token reader with user present check function for PKI application;
- ACR1252U Walletmate, a new reader supporting Apple VAS application (non-payment service with Apple Devices); and
- ACR1581 Dual-Interface Card Reader, next generation reader supporting ISO 15693 and ISO 18092.

We will also join the 2022 (18th) China International Internet of Thing Exhibition (IoTE) in Shenzhen in the second half of 2022 for promoting our products and our corporate image in the industry. In addition, the Group plans to explore new opportunities in new developing countries in South East Asia by introducing our products and services.

The global economy remains volatile and uncertain against a backdrop of inflationary pressures and geopolitical tensions. The Group stays resilient amidst these challenging times. We will continue to put efforts in enhanced promotion, excellence of products and service, development of innovative products as well as excellent customer relationship management and talent management in smart card related technology.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 30 June 2022, the Group's cash and cash equivalents amounted to HK\$43.7 million (31 December 2021: HK\$51.5 million). There was no borrowing as at 30 June 2022, hence the Group's gearing ratio, calculated by reference to the ratio of total borrowings to total equity attributable to owners of the Company as at 30 June 2022, was 0% (31 December 2021: 0%).

The Group's equity capital and the cash generated from operating activities has been applied to fund its working capital and other operational needs. The Group recorded net cash outflow in operating activities of HK\$2.3 million (2021: net cash inflow of HK\$2.5 million) for the Interim Period, the amount turned from inflow to outflow was mainly due to more cash consumed in daily operations such as purchase of inventories and settlement of trade payables during the Interim Period. The Group recorded net cash outflow in investing activities of HK\$3.2 million (2021: HK\$2.7 million) for the Interim Period, the amount increased as a result of more capital expenditures spent on development projects during the Interim Period. The Group recorded net cash outflow in financing activities of HK\$2.2 million (2021: HK\$2.2 million) for the Interim Period, which was due to the capital and interest elements of lease rentals paid.

DISPOSALS AND ACQUISITIONS

The Group did not have any material disposals or investments of subsidiaries and affiliated companies during the Interim Period.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

As at 30 June 2022, the Group did not have any capital commitment related to acquisition of property, plant and equipment, nor any plan authorised by the Board for other substantial investment or additions of capital assets.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in Hong Kong dollars, United States dollars and Renminbi. As Hong Kong dollars is pegged to United States dollars, exchange risk arising from United States dollars does not have significant financial impact to the Group. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

PLEDGE OF ASSETS

As at 30 June 2022, the Group did not pledge any of its material assets.

CONTINGENT LIABILITIES

As at 30 June 2022, the Company had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2022, the Group had 112 full time employees. Staff costs recognised in profit or loss for the Interim Period amounted to HK\$16.5 million (2021: HK\$17.3 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

ADDITIONAL INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Interim Period, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

CORPORATE GOVERNANCE

During the Interim Period, the Company has adopted the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules (the “CG Code”). The directors of the Company are of the opinion that the Company has complied with the code provisions set out in the CG Code during the Interim Period except the following:

Code Provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the appointment of Mr. Zhang Xueqin as the co-chairman and the chief executive officer of the Company on 26 February 2022, the Company has deviated from Code Provision C.2.1 of the CG Code as set out in Appendix 14 of the Listing Rules. However, the Board believes that vesting the roles of both co-chairman and chief executive officer in Mr. Zhang Xueqin has the benefit of ensuring consistent and continuous planning and execution of the Company’s strategies and will enable the Board to function more effectively when Mr. Mai Zhaoping, the co-chairman and executive director of the Company, is not available to attend the Board meeting in person. It is expected that Mr. Zhang Xueqin will perform the other functions and responsibilities of the chairman under the CG Code. The Board considers that the balance of power and authority, accountability and independent decision-making under the present arrangement will not be impaired in light of the diverse background and experience of the Board, with not less than one third of them being independent non-executive directors.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company adopted dealings rules regarding directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”).

Having made specific enquiry of all directors of the Company, all directors of the Company confirmed that they had complied with the required standard set out in the Model Code during the Interim Period regarding directors’ securities transactions.

AUDIT COMMITTEE

The audit committee of the Company is primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; reviewing the Company's financial controls, internal controls and risk management systems; and reviewing the financial statements of the Company. The audit committee has reviewed the Group's unaudited consolidated results for the six months ended 30 June 2022 and discussed the financial related matters with the management of the Group.

The audit committee currently comprises 4 members, namely Dr. Lin Tat Pang (being the chairman of the audit committee), Mr. Lai Chi Leung, Mr. Zhang Dingfang and Mr. Gu Tianlong.

PUBLICATION

The interim results announcement of the Company for the Interim Period is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.leadwayinv.com) respectively. The 2022 interim report will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Leadway Technology Investment Group Limited
Mai Zhaoping Zhang Xueqin
Co-chairmen

Hong Kong, 24 August 2022

As at the date of this announcement, the Board comprises six executive directors, namely Mr. Mai Zhaoping, Mr. Zhang Xueqin, Ms. Mai Qiqi, Mr. Chan Chun Leung, Ms. Xu Tingting and Mr. Wong Chi Ho, two non-executive directors, namely Mr. Mai Ziyi and Mr. Xing Yi, and four independent non-executive directors, namely Dr. Lin Tat Pang, Mr. Lai Chi Leung, Mr. Zhang Dingfang and Mr. Gu Tianlong.