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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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2086)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

HIGHLIGHTS

- For the six months ended 30 June 2023, revenue of the Group increased by 1% to HK\$45.6 million (six months ended 30 June 2022: HK\$45.3 million).
- For the six months ended 30 June 2023, loss for the period of the Group was HK\$4.4 million (six months ended 30 June 2022: profit of HK\$0.1 million).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023.

RESULTS

The board of directors (the “Board”) of Leadway Technology Investment Group Limited (the “Company”) hereby announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2023 together with the comparative unaudited figures for the corresponding period in 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023 – unaudited

(Expressed in Hong Kong dollars)

		Unaudited	
		six months ended 30 June	
	Note	2023	2022
		\$'000	\$'000
Revenue	3	45,579	45,270
Cost of sales		<u>(21,182)</u>	<u>(21,768)</u>
Gross profit		24,397	23,502
Other income		603	1,192
Selling and distribution costs		(5,551)	(2,277)
Research and development expenses		(8,041)	(6,594)
Administrative expenses		<u>(15,579)</u>	<u>(15,575)</u>
(Loss)/profit from operations		(4,171)	248
Finance costs	4(a)	<u>(91)</u>	<u>(120)</u>
(Loss)/profit before taxation	4	(4,262)	128
Income tax	5	<u>(101)</u>	<u>–</u>
(Loss)/profit for the period attributable to the equity shareholders of the Company		<u>(4,363)</u>	<u>128</u>
(Loss)/earnings per share	6		
Basic		(1.365 cents)	0.040 cents
Diluted		<u>(1.365 cents)</u>	<u>0.040 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 – unaudited

(Expressed in Hong Kong dollars)

	Unaudited	
	six months ended 30 June	
	2023	2022
	\$'000	\$'000
(Loss)/profit for the period	(4,363)	128
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>(236)</u>	<u>(1,587)</u>
Total comprehensive income for the period	<u><u>(4,599)</u></u>	<u><u>(1,459)</u></u>
Attributable to:		
Equity shareholders of the Company	<u><u>(4,599)</u></u>	<u><u>(1,459)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 – unaudited

(Expressed in Hong Kong dollars)

	<i>Note</i>	Unaudited 30 June 2023 \$'000	Audited 31 December 2022 \$'000
Non-current assets			
Property, plant and equipment		5,141	7,556
Intangible assets		8,272	7,324
Defined benefits obligations		178	177
		<u>13,591</u>	<u>15,057</u>
Current assets			
Inventories		26,522	29,404
Trade and other receivables	7	21,860	16,654
Other financial assets		210	209
Current tax recoverable		500	497
Cash and cash equivalents		26,807	39,969
		<u>75,899</u>	<u>86,733</u>
Current liabilities			
Trade and other payables	8	13,377	19,814
Lease liabilities		2,035	3,085
		<u>15,412</u>	<u>22,899</u>
Net current assets		<u>60,487</u>	<u>63,834</u>
Total assets less current liabilities		<u>74,078</u>	<u>78,891</u>
Non-current liabilities			
Deferred tax liabilities		100	–
Lease liabilities		646	960
		<u>746</u>	<u>960</u>
NET ASSETS		<u>73,332</u>	<u>77,931</u>
CAPITAL AND RESERVES			
Share capital		31,956	31,956
Reserves		41,376	45,975
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<u>73,332</u>	<u>77,931</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial results have 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 are unaudited but have been reviewed by the audit committee of the Company and it was authorised for issue on 23 August 2023.

The interim financial results have been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 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 contain 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 2022 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 2022 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 principal activities of the Group are the development, sales and distribution of smart card products, software and hardware and provision of related services.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by timing of revenue recognition is as follows:

	Six months ended 30 June	
	2023	2022
	\$'000	\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by timing of revenue recognition		
– Point in time	45,559	45,035
– Over time	20	235
	<u>45,579</u>	<u>45,270</u>

(b) Segment reporting

The Group's management assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services. The management considers there is only one operating segment and, accordingly, no operating segment information is presented.

The following table sets out information about the geographic area of the Group's revenue from external customers. The geographic area of customers is based on the location at which the services were rendered or the control over the goods are transferred to customers.

	Six months ended 30 June	
	2023	2022
	\$'000	\$'000
Revenue from external customers		
Disaggregated by geographical location of customers		
– Europe	21,699	27,643
– Asia Pacific	14,646	12,727
– The Americas	8,049	3,763
– Middle East and Africa	1,185	1,137
	<u>45,579</u>	<u>45,270</u>

4 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Six months ended 30 June	
	2023	2022
	\$'000	\$'000
Interest on lease liabilities	<u>91</u>	<u>120</u>

(b) Other items

	Six months ended 30 June	
	2023	2022
	\$'000	\$'000
Amortisation of intangible assets	867	1,738
Depreciation		
– owned property, plant and equipment	565	910
– right-of-use assets	2,189	2,026
Government subsidies income*	(116)	(1,039)
Reversal of impairment losses on trade receivables	(42)	–
Reversal of write down of inventories	(52)	(34)
Interest income	<u>(408)</u>	<u>(96)</u>

* The government subsidies granted to the Group during the six months ended 30 June 2023 mainly comprised the followings:

- (i) The Group successfully applied for research and development subsidy from government in Shenzhen, the mainland China of \$116,000 (six months ended 30 June 2022: \$243,000). 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 for the six months ended 30 June 2022 granted by the Hong Kong government under the anti-epidemic fund. No such subsidy was noted for the six months ended 30 June 2023. 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	
	2023	2022
	\$'000	\$'000
Current tax – Other jurisdictions		
Provision for the year	1	–
Deferred taxation	100	–
Income tax expense	101	–

Notes:

- (i) No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2023 and 2022 as the Group has sustained losses for taxation purpose. The provision for Hong Kong Profits Tax is calculated at 16.5% (2022: 16.5%) of the estimated assessable profits for the period.
- (ii) There is no provision for Philippines Incomes Tax for the six months ended 30 June 2023 and 2022 as the Group has sustained losses for taxation purpose.
- (iii) In accordance with the relevant mainland China corporate income tax laws, regulations and implementation guidance notes, the statutory income tax rate applicable to the Company's subsidiaries in the mainland China is 25%, except for the following companies:
 - (a) Logyi Limited (“Logyi”)

Logyi was granted the “small and micro sized enterprise” status from 2018 onwards and enjoys the preferential corporate income tax rate of 2.5%.
 - (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.
- (iv) Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

6 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on loss attributable to ordinary equity shareholders of the Company of \$4,363,000 (six months ended 30 June 2022: profit of \$128,000) and the weighted average of 319,565,000 (six months ended 30 June 2022: 319,565,000) ordinary shares in issue for the six months ended 30 June 2023.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share for the six months ended 30 June 2023 and 2022 are the same as the basic (loss)/earnings per share as there are no dilutive potential ordinary shares.

7 TRADE AND OTHER RECEIVABLES

	30 June 2023 \$'000	31 December 2022 \$'000
Trade receivables, net of loss allowance	15,761	10,545
Prepayments	1,007	1,103
Deposits paid	4,218	3,608
Other receivables	874	1,398
	21,860	16,654

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 2023 \$'000	31 December 2022 \$'000
Within 1 month	8,962	8,056
1 to 2 months	919	760
2 to 3 months	2,096	520
3 to 12 months	3,784	1,209
	15,761	10,545

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
	2023	2022
	\$'000	\$'000
Trade payables	5,684	10,161
Accruals	4,415	5,223
Receipt in advance from customers	3,278	4,430
	<hr/>	<hr/>
	13,377	19,814
	<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
	2023	2022
	\$'000	\$'000
Within 1 month	3,838	6,199
1 to 3 months	1,831	3,962
3 months to 1 year	15	–
	<hr/>	<hr/>
	5,684	10,161
	<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 2023 (the “Interim Period”).

FINANCIAL REVIEW

Revenue

Revenue experienced a slight increase of approximately 1%, rising from HK\$45.3 million for the corresponding period in 2022 to HK\$45.6 million for the Interim Period. This revenue stability is largely attributable to two primary factors. Firstly, the global shortage of integrated circuit chips, a challenge in previous periods, has seen notable improvement and thus ensured a steady supply of our products. Secondly, the easing of overseas control measures in response to the novel coronavirus disease (the “COVID-19”) pandemic has enabled national government projects to resume normal operations, further contributing to the revenue consistency.

Gross Profit Margin

Gross profit margin improved to 54% for the Interim Period (2022: 52%). This increase is largely attributable to strategic adjustments in our product pricing. In an effort to optimise profitability, we have been filtering out projects with lower gross profit margins and paying more focus on those projects that are more profitable.

Operating Expenses

Total operating expenses increased by 20%, from HK\$24.4 million for the corresponding period in 2022, to HK\$29.2 million for the Interim Period. The increase is mainly attributable to the following factors:

- (i) staff cost increased by HK\$3.5 million mainly due to the increase in the Group’s headcount for more staff recruited for overseas development in order to expand overseas sales. Besides, there is decrease in capitalisation of staff salaries as development costs as more new products of the Group are in research stage during the Interim Period; and
- (ii) net exchange gain decreased by HK\$1.3 million due to a greater extent of depreciation of Renminbi against Hong Kong dollar during the corresponding period in 2022, resulting in a more significant decrease of Renminbi denominated payable balances and hence a larger net exchange gain during the corresponding period in 2022.

Statement of Financial Position

As at 30 June 2023, the Group's net assets amounted to HK\$73.3 million (31 December 2022: HK\$77.9 million). The decrease of HK\$4.6 million was due to the net loss of HK\$4.4 million and movement of exchange reserve of HK\$0.2 million during the Interim Period.

DIVIDEND

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

BUSINESS REVIEW

As part of our commitment to ongoing innovation and collaboration, the first half of 2023 was characterised by the successful introduction of the ACR1581U Dual-Interface Smart Card Reader and the PocketKey FIDO Security Key. The second half of 2023 will bear witness to the launch of the ACR1552U Contactless Smart Card Reader and the ACR40U Contact Smart Card Reader. Furthermore, our proposal for the ACOS5-EVO FIPS140-3 Certification will take center stage in our new partnerships.

These strategic introductions and collaborations have been met with positive market feedback, underlining the anticipation for our future product releases.

Turning to our participatory events in 2023, the first half of the year saw our presence at major industry exhibitions like RFID Journal LIVE! in the United States and Seamless Asia 2023 in Singapore. In the latter half of the year, we anticipate our participation in Trustech 2023 in Paris.

The feedback generated from these activities bolsters our industry positioning, with customers perceiving Advance Card Systems Limited ("ACS"), a wholly owned subsidiary of the Group, as a trusted and robust supplier. This sentiment augments the anticipation surrounding our upcoming product releases.

In the face of fierce competition within the industry, we persistently strive to maintain our market standing through the continued investment in new product development and product enhancements.

Confronting the impact of global crises, such as the COVID-19 pandemic, the Russian-Ukrainian conflict, and the geopolitical tensions between China and the United States, we have deployed specific strategies. Given the reluctance of some of our European customers to execute new purchases, largely attributed to the ongoing conflict and Euro currency volatility, we aim to place more focus towards America and Southeast Asia. Concurrently, we are in the process of revising our current pricing and identifying opportunities for product cost reduction.

PROSPECTS

In the domain of industry recognition, ACS has made notable strides in 2023, being selected as a finalist for The Best New Product Category at the esteemed 2023 RFID Journal Awards for our WalletMate Mobile Wallet NFC Reader.

Our marketing and advertising strategy in the latter half of 2023 is characterised by the launch of our revamped website. This redesign is expected to enhance our digital presence and further stimulate customer engagement.

Predicting the growth prospects of the Group for the second half of 2023 and beyond involves some uncertainties, given the current global economic downturn. However, we maintain a positive outlook, anticipating that our innovative new products will stimulate customer purchasing and generate fresh sales revenue.

With respect to our operations in Japan, our Japan office reopened in early 2023. While it is still in its early stages, we foresee an upward trajectory in performance in the coming years, with a positive outlook for developmental opportunities in 2024.

With regard to our management and financial strategies, no major shifts are expected. Our leadership structure remains stable. Our steadfast approach supports our ongoing commitment to stability and growth, even in these challenging economic times.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 30 June 2023, the Group's cash and cash equivalents amounted to HK\$26.8 million (31 December 2022: HK\$40.0 million). The Group's net assets as at 30 June 2023 was HK\$73.3 million (31 December 2022: HK\$77.9 million).

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\$9.0 million (2022: HK\$2.3 million) for the Interim Period, the amount to more cash consumed in daily operations such as settlement of trade payables during the Interim Period. The Group recorded net cash outflow in investing activities of HK\$1.8 million (2022: HK\$3.2 million) for the Interim Period, the amount decreased as a result of less capital expenditures spent on development projects during the Interim Period. The Group recorded net cash outflow in financing activities of HK\$2.4 million (2022: HK\$2.2 million) for the Interim Period, which was due to the capital and interest elements of lease rentals paid.

GEARING RATIO

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 2023, was 0% (31 December 2022: 0%).

DISPOSALS AND ACQUISITIONS

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

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

As at 30 June 2023, the Group neither have any capital commitment related to the 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 are pegged to United States dollars, the exchange risk arising from United States dollars does not have a significant financial impact on 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 2023, the Group did not pledge any of its material assets.

CONTINGENT LIABILITIES

As at 30 June 2023, the Company had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2023, the Group comprised 123 dedicated full-time employees. Staff costs recognised in the profit or loss for the Interim Period amounted to HK\$20.0 million. We remain committed to ensure that our remuneration policies and packages align with each employee's qualifications, performance, and experience, as well as the current industry standards. Furthermore, we continue to invest in the growth of our team, offering various training sessions to bolster their understanding of our products and the market landscape.

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. 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") as set out in Appendix 10 of the Listing Rules.

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 2023 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 2023 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, 23 August 2023

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.