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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 2024

HIGHLIGHTS

- For the six months ended 30 June 2024, revenue of the Group increased by 4% to HK\$47.2 million (six months ended 30 June 2023: HK\$45.6 million).
- For the six months ended 30 June 2024, profit for the period of the Group was HK\$2.1 million (six months ended 30 June 2023: loss of HK\$4.4 million).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2024.

RESULTS

The board of directors (the “Board”) of Leadway Technology Investment Group 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 2024 together with the comparative unaudited figures for the corresponding period in 2023.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the six months ended 30 June 2024 – unaudited**(Expressed in Hong Kong dollars)*

		Unaudited	
		six months ended 30 June	
	<i>Note</i>	2024	2023
		\$'000	\$'000
Revenue	3	47,210	45,579
Cost of sales		<u>(22,649)</u>	<u>(21,182)</u>
Gross profit		24,561	24,397
Other income		434	603
Selling and distribution costs		(4,049)	(5,551)
Research and development expenses		(6,763)	(8,041)
Administrative expenses		<u>(11,899)</u>	<u>(15,579)</u>
Profit/(loss) from operations		2,284	(4,171)
Finance costs	4(a)	<u>(179)</u>	<u>(91)</u>
Profit/(loss) before taxation	4	2,105	(4,262)
Income tax	5	<u>–</u>	<u>(101)</u>
Profit/(loss) for the period attributable to the equity shareholders of the Company		<u>2,105</u>	<u>(4,363)</u>
Earnings/(losses) per share	6		
Basic		0.659 cents	(1.365 cents)
Diluted		<u>0.659 cents</u>	<u>(1.365 cents)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024 – unaudited

(Expressed in Hong Kong dollars)

	Unaudited	
	six months ended 30 June	
	2024	2023
	\$'000	\$'000
Profit/(loss) for the period	2,105	(4,363)
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>(675)</u>	<u>(236)</u>
Total comprehensive income for the period	<u>1,430</u>	<u>(4,599)</u>
Attributable to:		
Equity shareholders of the Company	<u>1,430</u>	<u>(4,599)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2024 – unaudited

(Expressed in Hong Kong dollars)

	<i>Note</i>	Unaudited 30 June 2024 \$'000	Audited 31 December 2023 \$'000
Non-current assets			
Property, plant and equipment		7,815	10,373
Intangible assets		7,602	7,383
Defined benefits obligations		216	228
		<u>15,633</u>	<u>17,984</u>
Current assets			
Inventories		26,946	26,811
Trade and other receivables	7	13,033	11,880
Other financial assets		202	212
Current tax recoverable		478	503
Cash and cash equivalents		22,983	20,227
		<u>63,642</u>	<u>59,633</u>
Current liabilities			
Trade and other payables	8	13,498	11,029
Lease liabilities		3,420	4,107
		<u>16,918</u>	<u>15,136</u>
Net current assets		<u>46,724</u>	<u>44,497</u>
Total assets less current liabilities		<u>62,357</u>	<u>62,481</u>
Non-current liabilities			
Lease liabilities		2,697	4,251
		<u>2,697</u>	<u>4,251</u>
NET ASSETS		<u>59,660</u>	<u>58,230</u>
CAPITAL AND RESERVES			
Share capital		31,956	31,956
Reserves		27,704	26,274
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<u>59,660</u>	<u>58,230</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 12 August 2024.

The interim financial results have been prepared in accordance with the same accounting policies adopted in the 2023 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2024 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 2023 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 2023 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	
	2024	2023
	\$'000	\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by timing of revenue recognition		
– Point in time	47,128	45,559
– Over time	82	20
	<u>47,210</u>	<u>45,579</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	
	2024	2023
	\$'000	\$'000
Revenue from external customers		
Disaggregated by geographical location of customers		
– Europe	26,911	21,699
– Asia Pacific	12,211	14,646
– The Americas	7,083	8,049
– Middle East and Africa	1,005	1,185
	<u>47,210</u>	<u>45,579</u>

4 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2024	2023
	\$'000	\$'000
Interest on lease liabilities	<u>179</u>	<u>91</u>

(b) Other items

	Six months ended 30 June	
	2024	2023
	\$'000	\$'000
Amortisation of intangible assets	908	867
Depreciation		
– owned property, plant and equipment	516	565
– right-of-use assets	2,177	2,189
Government subsidies income*	–	(116)
Reversal of impairment losses on trade receivables	(63)	(42)
Reversal of write down of inventories	(82)	(52)
Interest income	<u>363</u>	<u>(408)</u>

* The Group successfully applied for research and development subsidy from government in Shenzhen, the mainland China of \$116,000 during the six months ended 30 June 2023. The purpose of the subsidy is to encourage innovation by granting financial assistance to commercial entities whose research and development projects meet certain criteria.

5 INCOME TAX

	Six months ended 30 June	
	2024	2023
	\$'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 in the financial statements for the six months ended 30 June 2024 and 2023 as the Group has sustained losses for taxation purpose.
- (ii) No provision for Philippines Income Tax has been made in the financial statements for the six months ended 30 June 2024 and 2023 as the Group has sustained losses for taxation purpose.
- (iii) No provision for Chinese Mainland Corporate Income Tax has been made in the financial statements for the six months ended 30 June 2024 and 2023 as the Group has sustained losses for taxation purpose.
- (iv) Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

6 EARNINGS/(LOSSES) PER SHARE

(a) Basic earnings/(losses) per share

The calculation of basic earnings/(losses) per share is based on profit attributable to ordinary equity shareholders of the Company of \$2,105,000 (six months ended 30 June 2023: loss of \$4,363,000) and the weighted average of 319,565,000 (six months ended 30 June 2023: 319,565,000) ordinary shares in issue for the six months ended 30 June 2024.

(b) Diluted earnings/(losses) per share

Diluted earnings/(losses) per share for the six months ended 30 June 2024 and 2023 are the same as the basic earnings/(losses) per share as there are no dilutive potential ordinary shares.

7 TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2024	2023
	\$'000	\$'000
Trade receivables, net of loss allowance	7,910	6,662
Other receivables	5,123	5,218
	13,033	11,880

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
	2024	2023
	\$'000	\$'000
Within 1 month	5,142	6,076
1 to 2 months	2,484	584
2 to 3 months	284	2
	7,910	6,662

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
	2024	2023
	<i>\$'000</i>	<i>\$'000</i>
Trade payables	9,331	6,338
Accruals	2,458	4,145
Receipt in advance from customers	1,709	546
	<hr/>	<hr/>
	13,498	11,029
	<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
	2024	2023
	<i>\$'000</i>	<i>\$'000</i>
Within 1 month	7,292	2,613
1 to 3 months	2,039	3,361
3 months to 1 year	–	364
	<hr/>	<hr/>
	9,331	6,338
	<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 2024 (the “Interim Period”).

FINANCIAL REVIEW

Revenue

Revenue for the Interim Period was HK\$47.2 million, representing a 4% increase compared to HK\$45.6 million for the corresponding period in 2023. This positive growth can be attributed to several factors. The awarding of new government tenders in the first half of 2024 significantly boosted our revenue streams, underscoring our continued ability to secure substantial contracts that drive financial performance. Additionally, the introduction of new products has contributed to the revenue increase. These new offerings have been well-received in the market, generating additional sales and reinforcing our commitment to innovation and market responsiveness. The steady revenue growth reflects our strategic focus on expanding our product portfolio and leveraging new business opportunities. We remain optimistic about sustaining this momentum through the second half of 2024 and beyond.

Gross Profit Margin

Gross profit margin for the Interim Period was 52% compared to 54% for the corresponding period in 2023. This slight decrease is primarily due to the competitive pricing environment we faced during the Interim Period. However, we have successfully maintained a similar overall gross profit amount, with gross profit standing at HK\$24.6 million for the Interim Period, compared to HK\$24.4 million for the corresponding period in 2023.

Operating Expenses

Total operating expenses decreased by 22%, from HK\$29.2 million for the corresponding period in 2023 to HK\$22.7 million for the Interim Period. This decrease is mainly due to a reduction in the Group’s headcount, resulting in lower staff costs, and a decrease in other operating expenses due to effective cost-saving measures during the Interim Period.

Statement of Financial Position

As of 30 June 2024, the Group’s net assets amounted to HK\$59.7 million (31 December 2023: HK\$58.2 million). The increase of HK\$1.5 million was due to the net profit of HK\$2.1 million offset by the movement of exchange reserve of HK\$0.6 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 2024 was characterized by the successful introduction of the ACR1555U BT NFC Reader and the ACR1552U-A2 WaterGuard NFC Reader. The second half of 2024 will witness the launch of the PocketKey Pro FIDO Security Key, the ACOSJ v3 Open Platform Smart Card, and the WalletMate v2 Mobile Wallet NFC Reader. 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 2024, the first half of the year saw our presence at major industry exhibitions like IOTE 2024 in Shanghai and Japan IT Week Spring 2024 in Tokyo. In the latter half of the year, we anticipate our participation in the Global Security Exchange 2024 in the United States, Wireless IOT Tomorrow 2024 in Germany, and Trustech 2024 in France.

The feedback generated from these activities bolsters our industry positioning, with customers perceiving Advanced 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. We aim to expand our product range, enhance existing core products, and develop business in new markets to address the intense competition.

Confronting the impact of global crises, such as the novel coronavirus disease (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 2024, with the WalletMate Mobile Wallet NFC Reader receiving the IOTE 2024 Gold Award for “Innovative Product.” This accolade underscores our commitment to innovation and excellence in product development.

Our marketing and advertising strategy in the latter half of 2024 and into 2025 will be characterised by active participation in tradeshow across different regions. This approach is expected to enhance our visibility and engagement with potential customers, further stimulating interest in our product offerings.

Predicting the growth prospects of the Group for the second half of 2024 and beyond involves some uncertainties, given the current global economic landscape. 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, which reopened in March 2023, is still in the development phase. We plan to allocate additional resources to support the growth of this regional office and market. The expected future development opportunities are positive, and we foresee an upward trajectory in performance in the coming years.

Customers recognise ACS as a strong and reliable supplier in the industry and are looking forward to our upcoming new product releases. The Group's transition from a loss to a profit position highlights our effective cost-saving strategies and operational efficiencies. The Board has decided this year to close our Philippine office, and this is expected to further streamline our operations, positioning us for sustainable growth.

Regarding our management and financial strategies, no major shifts are expected. Our leadership structure remains stable, supporting 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 of 30 June 2024, the Group's cash and cash equivalents amounted to HK\$23.0 million (31 December 2023: HK\$20.2 million). The Group's net assets as at 30 June 2024 were HK\$59.7 million (31 December 2023: HK\$58.2 million).

The Group's equity capital and the cash generated from operating activities have been applied to fund its working capital and other operational needs. The Group recorded a net cash inflow in operating activities of HK\$6.1 million (2023: net cash outflow of HK\$9.0 million) for the Interim Period, attributed to better cash management and increased efficiency in daily operations. The Group recorded a net cash outflow in investing activities of HK\$0.9 million (2023: HK\$1.8 million) for the Interim Period due to less capital expenditure on development projects during the Interim Period. The Group recorded a net cash outflow in financing activities of HK\$2.4 million (2023: HK\$2.4 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 of 30 June 2024, was 0% (31 December 2023: 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 2024, the Group neither has 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 of 30 June 2024, the Group did not pledge any of its material assets.

CONTINGENT LIABILITIES

As of 30 June 2024, the Company had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2024, the Group comprised 91 dedicated full-time employees. Staff costs for the Interim Period amounted to HK\$15.3 million. We remain committed to ensuring 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 C1 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 C1 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 C3 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 2024 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 2024 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, 12 August 2024

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