芯智控股有限公司
Smart-Core Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2166)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

- Total revenue of the Group for the six months ended 30 June 2019 amounted to HK$2,090.1 million (2018: HK$2,264.5 million), representing a decrease of 7.7% as compared with the corresponding period in 2018.

- Gross profit of the Group for the six months ended 30 June 2019 amounted to HK$124.6 million (2018: HK$100.8 million), representing an increase of 23.6% as compared with the corresponding period in 2018.

- Net profit attributable to the owners of the Company for the six months ended 30 June 2019 amounted to HK$29.8 million (2018: HK$37.1 million), representing a decrease of 19.7% as compared with the corresponding period in 2018.

- Basic and diluted earnings per share for the six months ended 30 June 2019 were HK5.91 cents (2018: HK7.41 cents) and HK5.91 cents (2018: HK7.37 cents), respectively.

- The Board resolved to declare an interim dividend of HK2 cents per share for the six months ended 30 June 2019 (six months ended 30 June 2018: HK2 cents).

INTERIM RESULTS

The board ("**Board**") of directors (the "**Directors**") of Smart-Core Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019 (the "**Reporting Period**") with the comparative figures for the corresponding period in 2018. These results were based on the unaudited condensed consolidated financial statements for the Reporting Period which were prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure provision requirements of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of profit or loss and other comprehensive income
For the six months ended 30 June 2019

	Notes	**Six months ended 30 June**	
		2019	2018
		HK$'000	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**2,090,115**	2,264,513
Cost of sales		**(1,965,490)**	(2,163,695)
Gross profit		**124,625**	100,818
Other income		**7,175**	4,573
Other gains or losses, net		**4,066**	(285)
Impairment losses (recognised) reversed under expected credit loss model, net		**(3,571)**	5,103
Research and development expenses		**(11,877)**	(11,259)
Administrative expenses		**(28,282)**	(27,468)
Selling and distribution expenses		**(40,196)**	(18,319)
Finance costs		**(13,888)**	(10,190)
Profit before tax	*4*	**38,052**	42,973
Income tax expense	*5*	**(6,136)**	(6,020)
Profit for the period		**31,916**	36,953
Other comprehensive income (expenses)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**44**	(624)
Fair value loss on debt instruments at fair value through other comprehensive income		**(20)**	(205)
Cumulative loss reclassified to profit or loss on sale of investments in debt instruments measured at fair value through other comprehensive income upon disposal		**105**	–
		129	(829)
Total comprehensive income for the period		**32,045**	36,124

	Note	Six months ended 30 June 2019 HK$'000 (unaudited)	2018 HK$'000 (unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		**29,792**	37,059
Non-controlling interests		**2,124**	(106)
		31,916	36,953
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**29,904**	36,229
Non-controlling interests		**2,141**	(105)
		32,045	36,124
Earnings per share:			
Basic *(HK cents)*	*7*	**5.91**	7.41
Diluted *(HK cents)*		**5.91**	7.37

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Financial Position
As at 30 June 2019

	Notes	**As at 30 June 2019** ***HK$'000*** **(unaudited)**	As at 31 December 2018 *HK$'000* (audited) (restated)
Non-current assets			
Property, plant and equipment		**3,966**	4,614
Right-of-use assets		**9,198**	–
Goodwill		**9,735**	9,735
Intangible asset		**10,365**	11,560
Deposits, prepayments and other receivables		**369**	109
Deferred tax asset		**1,227**	–
Financial assets at fair value through profit or loss		**126,670**	123,297
		161,530	149,315
Current assets			
Inventories		**385,884**	256,169
Trade receivables	*8*	**681,990**	471,044
Deposits, prepayments and other receivables		**101,877**	51,666
Debt instruments at fair value through other comprehensive income		**–**	4,232
Financial assets at fair value through profit or loss		**–**	4,197
Amount due from a related company	*8*	**30**	–
Pledged bank deposits		**136,419**	103,664
Bank balances and cash		**84,247**	159,568
		1,390,447	1,050,540
Current liabilities			
Trade payables	*9*	**306,048**	398,174
Other payables and accrued charges		**65,870**	96,291
Contract liabilities		**14,976**	13,808
Lease liabilities		**2,698**	–
Amount due to a non-controlling shareholder of a subsidiary		**508**	2,005
Tax liabilities		**18,861**	14,686
Bank and other borrowings		**509,123**	59,255
		918,084	584,219
Net current assets		**472,363**	466,321
Total assets less current liabilities		**633,893**	615,636

	As at 30 June 2019 *HK$'000* (unaudited)	As at 31 December 2018 *HK$'000* (audited) (restated)
Non-current liabilities		
Deferred tax liability	**1,710**	1,907
Lease liabilities	**6,573**	–
	8,283	1,907
Net assets	**625,610**	613,729
Capital and reserves		
Share capital	**39**	39
Reserves	**578,077**	568,337
Equity attributable to owners of the Company	**578,116**	568,376
Non-controlling interests	**47,494**	45,353
	625,610	613,729

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have been prepared in accordance with HKAS 34 issued by the HKICPA as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules on the Stock Exchange. The unaudited condensed consolidated financial statements do not include all the information required for a complete set of financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

The functional currency of the Company is United States Dollars and the presentation currency of the Group's unaudited condensed consolidated financial statements is Hong Kong Dollars ("**HK$**").

1A. ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2018

Pursuant to Hong Kong Financial Reporting Standard ("**HKFRS**") 3 *Business Combinations*, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. The Group acquired 25% of the equity interest in Quiksol International HK Pte Limited ("**Quiksol HK**") and its subsidiary (hereinafter together with Quiksol HK referred to as "**Quiksol Group**") in October 2018. The Group recognised in its consolidated financial statements for the year ended 31 December 2018 the provisional amounts of purchase considerations, fair value of identifiable assets acquired and liabilities assumed and goodwill. During the current period (i.e. within the measurement period), the fair value assessment in respect of the acquisition has completed, and the Group retrospectively adjusted the 2018 comparative information on the condensed consolidated statement of financial position as at 30 June 2019 as follows:

	As previously reported	**Adjustments**	**Restated**
	HK$'000	*HK$'000*	*HK$'000*
Goodwill	7,230	2,505	9,735
Intangible asset	5,790	5,770	11,560
Deferred tax liability	(955)	(952)	(1,907)
Equity attributable to owners of the Company	(568,292)	(84)	(568,376)
Non-controlling interests	(38,114)	(7,239)	(45,353)

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the Reporting Period are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's unaudited condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to Hong Kong Accounting Standard ("**HKAS**") 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

Impacts and changes in accounting policies on application of HKFRS 16 *Leases*

The Group recognised lease liabilities of HK$469,000 and the related right-of-use assets at the same amount at 1 January 2019 by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.43%.

3. REVENUE AND SEGMENT INFORMATION

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Sale of electronic components	**2,090,115**	2,264,513

Revenue is recognised at a point of time when control of the goods has transferred, being when the goods have been delivered to port of discharged or the customer's specific location as stipulated in the sales agreement. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods.

Advance payments may be received based on terms of sales contract and any transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer. The normal credit term is 0 to 120 days upon delivery.

Customers can only return or request refund if the goods delivered do not meet required quality standards. As at 30 June 2019, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

For the purpose of resource allocation and assessment of segment performance, the executive directors of the Company, collectively, being the chief operating decision maker, focuses and reviews on the overall results (i.e. revenue and gross profit) and financial position of the Group as a whole which are prepared based on the Group's accounting policies. Accordingly, the Group has only one single operating segment and no further analysis of the single segment is presented.

4. PROFIT BEFORE TAX

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit before tax has been arrived after charging (crediting):		
Allowance for inventories	**9,362**	4,723
Amortisation of intangible asset (included in selling and distribution expenses)	**1,195**	–
Bank interest income (included in other income)	**(889)**	(342)
Cost of inventories recognised as an expense	**1,956,128**	2,158,972
Depreciation of property, plant and equipment	**1,258**	739
Depreciation of right-of-use assets	**874**	–
Interest income from loans to third parties (included in other income)	**(3,164)**	(1,322)
Staff costs (including directors' emoluments)	**52,171**	41,228

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Hong Kong Profits Tax	**7,317**	6,799
PRC Enterprise Income Tax	**243**	(779)
	7,560	6,020
Deferred tax	**(1,424)**	–
	6,136	6,020

6. DIVIDENDS

During the current interim period, a final dividend of HK4 cents per share in respect of the year ended 31 December 2018 (2018: HK3 cents per share in respect of the year ended 31 December 2017) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK$20,164,000 (2018: HK$15,000,000). Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK2 cents (2018: HK2 cents) per share in respect of the six months ended 30 June 2019 will be paid to the shareholders whose names appeared on the register of members as at the close of business on Wednesday, 18 September 2019.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company for the period is based on the following data:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**29,792**	37,059

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**503,830,776**	500,000,000
Effect of dilutive potential ordinary share:		
Unvested shares under share award scheme	**24,254**	2,711,331
Weighted average number of ordinary shares for the purpose of diluted earnings per shares	**503,855,030**	502,711,331

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Earrings per share:		
Basic *(HK cents)*	**5.91**	7.41
Diluted *(HK cents)*	**5.91**	7.37

For the six months ended 30 June 2019, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account the ordinary shares purchased by Computershare Hong Kong Trustees Limited from the market pursuant to the share award scheme of the Company for those unvested awarded shares and ungranted shares.

8. TRADE RECEIVABLES/AMOUNT DUE FROM A RELATED COMPANY

Trade receivables

	As at 30 June 2019 HK$'000 (unaudited)	As at 31 December 2018 HK$'000 (audited)
Trade receivables	**692,174**	346,696
Less: allowance for credit losses	**(10,184)**	(7,660)
	681,990	339,036
Trade receivables under factoring agreements *(Note)*	**–**	132,008
	681,990	471,044

Note: The Group entered into non-recourse factoring agreements with banks to factor certain customers' trade receivables and these receivables are measured at fair value through profit or loss as it is held within a business model whose objective is not to collect contractual cash flows but to sell the financial assets.

As at 31 December 2018, trade receivables of HK$340,239,000 (30 June 2019: nil) were derecognised as the directors of the Company were of the opinion that the substantial risks and rewards associated with the trade receivables had been transferred to banks and therefore qualified for derecognition.

As at 30 June 2019, total bills received amounting to HK$3,420,000 (31 December 2018: nil) with a maturity period of 30 days are held by the Group for future settlement of trade receivables. The Group continues to recognise trade receivables' full carrying amounts at the end of the reporting period.

The Group allows credit period of 0 to 120 days (31 December 2018: 0 to 120 days) to its customers. The following is an aged analysis of the Group's trade receivables (net of allowance for credit losses), at the end of the reporting period, based on the invoice dates which approximated the respective revenue recognition dates:

	As at 30 June 2019 HK$'000 (unaudited)	As at 31 December 2018 HK$'000 (audited)
0 – 60 days	**524,784**	340,725
61 – 120 days	**89,910**	67,425
Over 120 days	**67,296**	62,894
	681,990	471,044

Amount due from a related company

The amount due from a related company represents trade balance with Smart-Core Technology Co., Ltd and is unsecured, non-interest bearing with a credit period of 120 days. The balance at 30 June 2019 is aged within 30 days.

9. TRADE PAYABLES

	As at 30 June 2019 *HK$'000* (unaudited)	As at 31 December 2018 *HK$'000* (audited)
Trade payables	**306,048**	398,174

The credit period on trade purchases is 0 to 60 days (31 December 2018: 0 to 60 days).

Ageing analysis of the Group's trade payables based on invoice dates at the end of the reporting period is as follows:

	As at 30 June 2019 *HK$'000* (unaudited)	As at 31 December 2018 *HK$'000* (audited)
0 – 30 days	**226,262**	294,334
31 – 60 days	**61,902**	103,361
61 – 90 days	**17,014**	461
Over 90 days	**870**	18
	306,048	398,174

As at 30 June 2019, included in the trade payables is HK$16,109,000 (31 December 2018: HK$2,811,000) in which the Group issued bills to relevant creditors for settlement and remained outstanding at the end of the reporting period.

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK2 cents per share for the six months ended 30 June 2019 and is expected to be paid on or about Monday, 30 September 2019 to the shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 18 September 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 16 September 2019 to Wednesday, 18 September 2019, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 13 September 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first half of 2019 has witnessed continued economic and trade frictions around the globe and the rise of technological protectionism which undermined the originally open and cooperative technological innovation ecosystem, posing a negative impact on the healthy development of the global economy. J.P. Morgan Global Manufacturing Purchasing Manager's Index (PMI) recorded 49.4% in June 2019, being the lowest during the period of the last six and a half years, and had been under the 50% threshold for two consecutive months, indicating the insufficient demand faced by the global manufacturing industry. The semiconductor chip industry, as the core resource of the electronics manufacturing industry, was also significantly affected. According to the data released by the Semiconductor Industry Association (SIA) in early July 2019, global chip sales in May 2019 decreased by 14.6% year-on-year, and has been on the decline trend for five consecutive months.

The changes in the global economic environment have not only adversely affected the business of the downstream customers of the Group, but also posed a negative impact on the achievement of the Group's sales targets during the first half of 2019. Although the Group maintained a fairly stable sales of core TV IC, it experienced a decline in sales of memory chips and set-top box chips in the first half of 2019. In addition, the Group's business recorded growth in its new products such as security monitoring, smart projection, smart locks and automotive electronics. However, the Group's emerging businesses, due to their small sales bases, made limited contributions to the Group's overall performance. As a result, the Group's sales performance for the first half of 2019 decreased slightly by 7.7% year-on-year.

Broadcast TV

According to the "Report on China's Colour TV Consumption for the First Half of 2019 and Trend Forecast for the Second Half of the Year" (《2019年1-6月中國彩電消費及下半年趨勢預測報告》) released by the China Electronics Chamber of Commerce, in the first half of 2019, the domestic colour TV consumption decreased by 4.3% year-on-year. As the Group adjusted its strategy in a timely manner to cope with the changes in market demand, the Group was able to maintain a stable sales of TV IC in an adverse market condition. The Group's core TV IC sales slightly decreased by 2.4% year-on-year to approximately HK$948.3 million in the first half of 2019.

According to the statistics from the streaming media network, in the first half of 2019, the internet protocol television ("**IPTV**") terminal purchase orders recorded by the three major telecom network operators in China declined substantially. Due to the sluggish market, coupled with the economic and trade frictions as well as the impact of technological protectionism in the export market, the sales of IPTV set-top box chips of the Group and set-top box chips in overseas carrier markets recorded a substantial decline, which led to a drop in the overall sales of the broadcast TV business. In the first half of 2019, the total sales of the Group's broadcast TV products was approximately HK$1,245.8 million, representing a decrease of 8.7% year-on-year.

Memory

In the context of the sluggish global economy, in the first half of 2019, major original manufacturers and brand manufacturers of memory chips were facing great pressure on inventory turnover rate and delivery, leading to a decline in both quantity and price of the non-volatile memory technology ("**NAND**") flash memory and the global dynamic random access memory ("**DRAM**") in the first half of 2019. Given the DRAM market was still oversupplied and market demand was weaker than the expectation in the first half of 2019, the Group recorded a cumulative decline of more than 30% in the prices of our DRAM products in the first half of 2019.

In the first half of 2019, the total sales of the Group's memory chip business decreased significantly, with sales down by 24.4% year-on-year to approximately HK$220.3 million.

Optoelectronic Display

In the first quarter of 2019, global display panel shipments declined year-on-year while liquid crystal display ("**LCD**") TV panel shipments recorded an increase according to Sigmaintell Research (群智諮詢). Thanks to our growth in market share due to increase of core blue chip customers, the Group's supply of semiconductor chips for LCD panels also increased in the first half of 2019 while the sales of system-on-chip ("**SoC**") master control chips for displays remained stable. Due to the substantial year-on-year decrease in shipments of the Group's TP touch IC business, the overall sales performance of the optoelectronic display business for the first half of 2019 recorded a year-on-year decrease of 10.2% to approximately HK$194.4 million.

Communication Products

The Group's communications product line mainly includes the provision of electronic components such as memory chips, radio frequency power amplifier and wireless charging chips to manufacturers of mobile phones, cellular Internet of Things ("**IoT**") modules and mobile phone peripheral accessories. In the first half of 2019, with increasing uncertainties of the market demand, the change in demand of individual customers led to a decline in the sales performance of this product line. However, benefiting from the growth of small and medium-sized customer groups and the initial achievements of market expansion of other peripheral product lines, the profitability of this product line improved. In the first half of 2019, the sales of the Group's communications products recorded a year-on-year decrease of 11.6% to approximately HK$67.6 million.

AIoT

The Group's artificial intelligence of things ("**AIoT**") business focuses on the sales of wireless connected chips and modules for the application in Wi-Fi, bluetooth low energy, long-term evolution ("**LTE**"), 2.4GHz, etc. In the first half of 2019, due to the drastic fluctuations in the demand from a large customer of the Group, the sales of the Group's AIoT business in early 2019 were not ideal. Even though other new customers commenced bulk purchase, such benefit was not able to fully offset the decline in the Group's AIoT sales caused by the sharp decrease in orders. In the first half of 2019, the sales of the Group's AIoT business recorded a year-on-year decrease of 36.9% to approximately HK$33.5 million.

Security Monitoring

The development of security monitoring involves five stages, namely simulation, digitalisation, networking, high-definition and intelligent monitoring. Currently, security monitoring industry is rapidly developing towards the stages of digitalisation, networking and intellingentisation. In 2018, "Artificial Intelligence ("**AI**") + Security Industry" was developing quickly. At present, AI technology has become the main force to promote technological advancement in the security monitoring industry, while integrated biometrics technology has become the focus of application in the security monitoring industry. The Group's security monitoring product line focuses on developing core SoC chips and image sensors for high-definition cameras, and proactively maintains close collaboration with AI algorithm companies. In the first half of 2019, our products maintained a leading edge in the industry, and the Group achieved a revenue of approximately HK$66.8 million in the first half of 2019, representing a year-on-year increase of 41.5%.

Independent Distribution

In the first half of 2019, due to the worldwide substantial price reduction of memory products, the overall turnover from independent distribution business was under pressure at the beginning of 2019. However, as the price of memory products has become more stable, customers began to place more orders rather than remaining hesitant. In the context of increased central processing unit ("**CPU**") orders, which is attributable to CPU shortages and price increases in the first half of 2019, the Group recorded a total turnover of approximately HK$169.7 million and maintained an overall steady growth momentum.

Other Areas

In the first half of 2019, the Group achieved some positive progress in the technology value-added sector. The cooperation projects between our smart projection division and two of the Global 500 companies have been advancing smoothly. During the same period, our cooperation with certain well-known domestic appliance brands in relation to 4K smart projection products has been launched in the market. Our smart lock product line, which is based on the solution developed with NXP Semiconductors N.V. security chip, achieved business breakthroughs in securing certain core customers in the first half of 2019. It is expected that such other product lines will record a substantial growth in the second half of 2019.

OUTLOOK

Looking forward to the second half of 2019, China's economy is still affected by a complex and changing external environment, especially the uncertainties surrounding the Sino-US trade frictions. Although the downward pressure in our overall performance increase, the Group will continue to closely monitor global economic changes and industrial developments trend, join in hands with our suppliers and customers to expand and enhance the following business and continue to explore more markets and new business.

Broadcast TV

According to China Electronics Chamber of Commerce, the proportion of 4K ultra-high-definition TV consumption in China continued to rise in the first half of 2019, and is expected to record a further increase for the rest of the year, marking the full-scale popularisation of 4K ultra-high-definition TV. Mediatek Inc. ("**Mediatek**"), a core chip supplier of the Company in the first half of 2019, has recently officially launched an 8K smart TV IC S900 platform program, and it is expected that the final product will be promoted on a large scale in early 2020.

In addition to continuously enhancing core technical indicators, smart LCD TVs with AI capabilities are also expected to become the core appliance of smart homes in the future. Smart home is the word frequently used in the entire home appliance industry in recent years. It is expected that the market scale of smart home industry will continue to expand in the second half of 2019 and in 2020. Building a smart TV-centred smart home IoT is expected to bring a new opportunity for the development of the smart TV industry.

In terms of the set-top box market, with the development of TV set-top boxes from digitalisation to networking and 4K ultra-high definition, set-top boxes have gradually become a new access to digital home network, and are expected to become one of the important access to smart homes in the future. In terms of 4K ultra-high definition program resources, apart from the "CCTV 4K" and 4K IPTV channels operated in different provinces in China, it is expected that nine to ten more 4K channels will be launched in 2020 in China. The increasingly enriched program resources will allow the ultra-high-definition industry to transform significantly. The integrated circuits and other electronic components used in the ultra-high-definition IPTV set-top boxes sold by the Group are expected to maintain a positive market prospect in the coming years.

The TV and set-top box business is an existing core business of the Company with large business volume, and is expected to maintain a stable development trend and constitute one of the Company's fundamental businesses in the future.

Memory

Based on the industrial information disclosed in the first half of 2019, large-sized manufacturers of the memory supply chain recently announced that their inventory levels have significantly decreased, and major memory chip factories have successively reduced their capital expenditures and slowed down their expansion. During the coming traditional peak season in the second half of 2019, the production capacity for Intel 10 and 14nm full range of processors will be in place, demands in the server market will gradually pick up, and it is expected that the memory market conditions will be improved in the second half of 2019.

As the memory products take a pivotal position in the entire semiconductor industry and there is still much room for development in the future, the memory business team of the Group will further develop this sector and continue to expand the customer base and business scale.

Optoelectronic Display

According to the data released by Witsview (集邦諮詢光電研究中心), it is expected that the LCD panel excess rate will fall from 2% in 2018 to less than 1% in the second half of 2019 with an improving market supply and demand relationship. The substitution effect due to scale economies in the TV sector will fuel the development of large-sized products and lead to rapid growth of the demand for TV panel. The demand for LCD panel area is expected to record a year-on-year increase for the year of 2019.

Communication Products

According to the Annual Report of China Radio Regulation 2018 (中國無線電管理年度報告－2018年) released by the Ministry of Industry and Information Technology, as of the end of December 2018, the three leading telecommunications enterprises in China, namely China Telecom, China Mobile and China Unicom, had 670 million cellular IoT users, representing a net increase of 400 million users for the year of 2018. Cellular IoT is widely used in smart fire protection, smart meter reading, smart locks, smart parking and other fields. It is expected that the number of cellular IoT users will continue to growth in the second half of 2019.

From the perspective of the services provided by the current cellular IoT, 2G is still the most important connection method for the current global cellular IoT, and narrow band Internet of Thing ("**NB-IoT**") will be the focus of developing the IoT industry in the future. For instance, China Mobile has already built more than 200,000 NB-IoT base stations nationwide, covering 346 major cities. Looking ahead, as most operators around the world will successively promote the phase-out of 2G, the market share of 2G data modules will gradually be replaced by NB-IoT.

According to the forecast by International Data Corporation, the number of IoT connections in the world will reach 30 billion by 2020, of which the number of cellular IoT connections will reach 2 billion. In view of this, it is foreseeable that NB-IoT-based cellular IoT terminals will be rapidly popularised and become an integral part of the construction of the Internet of Everything and smart cities in the next five years.

The communication product team is vigorously expanding new product lines and exploring new markets. It is expected that the business will be back on growth track in the second half of 2019, with promising prospects for future development.

AIoT

AIoT, being a new form of IoT application which is different from the traditional IoT, integrates AI technology and IoT in practical applications. In June 2019, Mediatek released a new AIoT platform which comprises the i300 series with high integration features, the i500 series with integrated accelerated processing unit performance features and the high-end i700 series SoC chips. Depending on the specific configuration, bluetooth, Wi-Fi and LTE wireless connectivity features may be equipped to allow rich human-computer interfaces for more application scenarios, which can provide solutions for smart homes, smart cities and smart factories in the industry, thereby helping the integration of AI technology and IoT technology.

According to a recent report released by Markets and Markets, the world's second largest market research organisation, it is expected that the global AIoT market size will be US$5.1 billion in 2019, and will grow to US$16.2 billion by 2024, representing a compound annual growth rate of 26.0%. The AIoT market will become a new fast-growing market being full of opportunities.

As a close business partner of MediaTek, the Group will integrate resources to launch new solutions incorporating neural processing unit and face recognition algorithms, such as smart attendance, smart access control and smart retail based on the latest AIoT platform of MediaTek, thereby providing end-customers and original design manufacturer customers with complete and customisable turnkey solutions integrated with cloud features, aiming to capitalise on new opportunities of market development.

Security Monitoring

In 2018, substantially all in-depth learning and analysis applications in the security sector were processed on the server side or using cloud services rather than on the camera side (edge side). However, with the rapid development of edge computing and the popularity of 5G network, we believe that the second half of 2019 will be an important period to achieve new breakthroughs in security application-specific integrated circuit.

As a technologically advanced country in terms of security monitoring, China's demand for smart high-definition monitoring devices is far higher than other countries and regions. In addition, China is engaging a large number of infrastructure construction projects, including railways, airports, highway systems and major buildings. The Group expects that China's security monitoring market will grow rapidly.

Independent Distribution

Looking into the second half of 2019, as the Group's orders for memory products recorded a significant increase due to the worldwide increasing price of memory products as a result of the trade tension between Japan and South Korea, coupled with the continuing short supply of CPUs, CPU orders are expected to continue to increase. However, affected by continuing uncertainties such as China-US trade frictions, some of our international customers are transferring production capacity to factories outside China. We expect that other IC businesses will continue to decline slightly.

Looking ahead, we will continue to expand our existing business in terms of both scale and strength, and will explore more markets and new businesses relying on our own judgment and resources. We will continuously pay attention to the incubation and development of the Group's technology value-added business, and improve our investment return by creating value through technology development, and strengthen the construction of intellectual property to accumulate and build up our core competence.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, the Group's revenue amounted to HK$2,090.1 million, representing a decrease of HK$174.4 million (7.7%) as compared with the corresponding period in 2018 (HK$2,264.5 million). The decrease in revenue level was mainly caused by the combination effect of the decrease in the sales from our Broadcast TV products, Memory and other products of total approximately HK$307.5 million as well as the newly added sales of approximately HK$169.7 million after the acquisition of Quiksol Group in late 2018. The decrease in revenue was mainly attributable to the weak market demand for Broadcast TV products which was affected by the unfavorable factors such as Sino-US trade friction and the impact of technological protectionism on the export market.

Gross profit

Our gross profit for the six months ended 30 June 2019 increased by HK$23.8 million (23.6%) to HK$124.6 million as compared with the corresponding period in 2018 (HK$100.8 million). Our gross profit margin increased by 1.5% to 6.0% for the six months ended 30 June 2019 (six months ended 30 June 2018: 4.5%). The increase in gross profit margin was principally the combined effect of the higher gross profit margin from the independent distribution business and an one-off rebate from our supplier which decreased our cost of inventories.

Research and development expenses

Research and development expenses mainly comprise of staff cost incurred for our research and development department. For the six months ended 30 June 2019, research and development expenses amounted to HK$11.9 million, increased by 5.3% as compared with the six months ended 30 June 2018 (HK$11.3 million). The increase was due to the sustainable needs of the technical support from our customers especially after the launch of certain new products as well as the increase in the average salaries cost to the technicians during the period.

Administrative, selling and distribution expenses

Administrative, selling and distribution expenses aggregated to HK$68.5 million for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$45.8 million), which accounted for 3.3% of the revenue for the six months ended 30 June 2019 as compared with 2.0% over the corresponding period in 2018. The net increase of HK$22.7 million was attributable to an increase in staff costs and newly added selling and distribution expenses from the independent distribution business after the acquisition of the Quiksol Group in late 2018.

Finance costs

The Group's finance costs for the six months ended 30 June 2019 amounted to HK$13.9 million (six months ended 30 June 2018: HK$10.2 million). The Group has entered into various financing arrangements with some of the principal bankers. The finance costs increased compared to the prior period which was due to the increased utilisation of bank borrowings to finance our working capital.

Profit for the period

For the six months ended 30 June 2019, the Group's profits amounted to HK$31.9 million, representing a decrease of HK$5.1 million as compared to HK$37.0 million for the corresponding period in 2018, a drop of 13.8%. The net profit margin for the six months ended 30 June 2019 was approximately 1.53%, which approximated to the corresponding period in 2018 (2018: 1.63%).

Net profit attributable to the owners of the Company

The net profit attributable to the owners of the Company for the six months ended 30 June 2019 amounted HK$29.8 million, representing a decrease of 19.7% as compared with the corresponding period in 2018.

Use of proceeds from the global offering

The shares of the Company were listed (the "**Listing**") on the Stock Exchange on 7 October 2016 (the "**Listing Date**"). The Company issued 125,000,000 new shares with the nominal value of US$0.00001 at HK$1.83 per share. The net proceeds from the Listing received by the Company were approximately HK$205.8 million after deducting underwriting fees and estimated expenses in connection with the Listing.

The Group has utilised approximately HK$103.1 million of the net proceeds as at 30 June 2019. The unutilised net proceeds have been placed as deposits with banks.

Liquidity and financial resources

The Group's primary source of funding include cash generated from operating activities and the credit facilities provided by banks. The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements. As at 30 June 2019, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK$220.7 million (31 December 2018: HK$263.2 million).

As at 30 June 2019, the outstanding bank and other borrowings of the Group was HK$509.1 million (31 December 2018: HK$59.3 million). The Group's gearing ratio, based on the interest-bearing borrowings and total equity, increased from 9.7% as at 31 December 2018 to 81.4% as at 30 June 2019 as a result of the increased level of bank borrowings to finance our expanded working capital needs.

As at 30 June 2019, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK$920 million and HK$415 million (31 December 2018: HK$949 million and HK$554 million) respectively.

As at 30 June 2019, the Group had current assets of HK$1,390.4 million (31 December 2018: HK$1,050.5 million) and current liabilities of HK$918.1 million (31 December 2018: HK$584.2 million). The current ratio was 1.51 times as at 30 June 2019 (31 December 2018: 1.80 times).

The Group's debtor's turnover period was 50 days for the six months ended 30 June 2019 as compared to 29 days for the corresponding period in 2018. The overall debtors' turnover period was within the credit period. The increase in debtors' turnover period is due to the delay in payments from certain of our small and medium enterprises customers upon the change in economic environment, as well as receivables of certain of our customers are no longer derecognised under factoring agreements as at 30 June 2019.

The creditors' turnover period was 32 days for the six months ended 30 June 2019 as compared with 30 days for the corresponding period in 2018. Creditors' turnover period has been maintaining at a stable level.

The inventories' turnover period was 30 days for the six months ended 30 June 2019 as compared with 20 days for the corresponding period in 2018. The increase in inventories' turnover period mainly caused by the delay on goods delivery requested by customers.

Foreign currency exposure

The Group's transactions are principally denominated in United States dollars and Renminbi. The Group had not experienced any material difficulties or material adverse impacts on its operation despite the fluctuations in currency exchange rates and the net foreign exchange loss of approximately HK$0.5 million during the six months ended 30 June 2019 (six months ended 30 June 2018: net foreign exchange loss of approximately HK$0.2 million). At the date of this announcement, the Group has not adopted any foreign currency hedging policy. However, the Group will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the exposures become significant.

Pledge of assets

As at 30 June 2019, the financial assets at fair value through profit or loss ("**FVTPL**") amounted to HK$126.7 million (31 December 2018: HK$127.5 million), debt instruments at fair value through other comprehensive income ("**FVTOCI**") amounted to HK$nil (31 December 2018: HK$4.2 million), trade receivable factored amounted to HK$280.4 million (31 December 2018: HK$nil) and bank deposits amounted to HK$136.4 million (31 December 2018: HK$103.7 million) had been charged as security for the bank borrowings and financing arrangement of the Group.

Capital commitment and contingent liabilities

The Group had no material capital commitment and contingent liabilities as at 30 June 2019 and 31 December 2018.

Significant investment held

Save for the financial assets at FVTPL as disclosed above, the Group did not hold any significant investments during the six months ended 30 June 2019.

Material acquisition and disposal of subsidiaries and associated companies

The Group has no material acquisitions or disposals of subsidiaries and associated companies during the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2019.

EVENTS AFTER THE INTERIM PERIOD ENDED 30 JUNE 2019

Up to the date of announcement, the Group has no significant subsequent event after 30 June 2019 which required disclosure.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining high corporate governance standards. The Board believes that good corporate governance (which includes adopting an effective management accountability system and high standard of business ethnics), can provide a framework that is essential to the Company's sustainable development and to safeguard the interests of the Shareholders, suppliers, customers, employees and other stakeholders.

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Except for code provision A.2.1 as disclosed below in this announcement, the Company has complied with the applicable code provisions of the CG Code during the six months ended 30 June 2019. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual.

The Company deviates from code provision A.2.1 in that Mr. Tian Weidong currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of the Directors, and all Directors confirmed that they had fully complied with the Model Code for the six months ended 30 June 2019.

AUDIT COMMITTEE

The Company has established an audit committee, comprising three independent non- executive Directors, namely Mr. Zheng Gang, Mr. Tang Ming Je and Mr. Wong Hok Leung. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide comment and advice to the Board. The audit committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2019 ("**interim financial statements**") and discussed with the external auditors on the result of an independent review of the interim financial statements as well as with the management on the accounting policies adopted by the Group, internal controls and financial reporting matters of the Group.

PUBLICATION OF INTERIM RESULTS

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.smart-core.com.hk). The interim report of the Company for the six months ended 30 June 2019 containing all the information required by the Listing Rules and other applicable laws and regulations will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Smart-Core Holdings Limited
Tian Weidong
Chairman and Executive Director

Hong Kong, 26 August 2019

As at the date of this announcement, the Board comprises Mr. Tian Weidong (Chairman), Mr. Wong Tsz Leung, Mr. Liu Hongbing and Mr. Yan Qing as executive Directors, Mr. Zheng Gang, Mr. Tang Ming Je and Mr. Wong Hok Leung as independent non-executive Directors.