芯智控股有限公司
Smart-Core Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2166)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- The total revenue of the Group for the year ended 31 December 2019 amounted to HK$4,762.8 million (2018: HK$4,935.6 million), representing a decrease of 3.5% as compared with the year ended 31 December 2018.
- The gross profit of the Group amounted to HK$270.9 million for the year ended 31 December 2019 (2018: HK$234.1 million), representing an increase of 15.7% as compared with the year ended 31 December 2018.
- The net profit attributable to the owners of the Company for the year ended 31 December 2019 amounted to HK$55.1 million (2018: HK$80.5 million), representing a decrease of 31.6% as compared with the year ended 31 December 2018.
- Basic earnings per share for the year ended 31 December 2019 was HK10.96 cents (2018: HK16.15 cents).
- The Board resolved to recommend a final dividend of HK2 cents per share for the year ended 31 December 2019 (2018: HK4 cents).

FINAL RESULTS

The board ("**Board**") of directors (the "**Directors**") of Smart-Core Holdings Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**", "**we**" or "**our**") for the financial year ended 31 December 2019 (the "**Reporting Period**") with the comparative figures for the previous year, as follows:

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

	NOTES	Year ended 31 December 2019 HK$'000	2018 HK$'000 (Restated)
Revenue	3	**4,762,816**	4,935,634
Cost of sales		**(4,491,880)**	(4,701,564)
Gross profit		**270,936**	234,070
Other income		**15,359**	14,896
Other gains or losses, net		**5,330**	(1,043)
Impairment losses (recognised) reversed under expected credit loss model, net		**(15,218)**	17,752
Research and development expenses		**(24,044)**	(27,059)
Administrative expenses		**(60,481)**	(54,314)
Selling and distribution expenses		**(92,999)**	(55,068)
Finance costs		**(27,333)**	(27,444)
Profit before tax		**71,550**	101,790
Income tax expenses	5	**(9,775)**	(20,410)
Profit for the year	6	**61,775**	81,380
Other comprehensive income (expenses)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**1,032**	(1,659)
Fair value loss on debt instruments at fair value through other comprehensive income		**(20)**	(113)
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**	–
Total comprehensive income for the year		**62,892**	79,608

	NOTE	Year ended 31 December 2019 HK$'000	2018 HK$'000 (Restated)
Profit for the year attributable to:			
Owners of the Company		**55,102**	80,499
Non-controlling interests		**6,673**	881
		61,775	81,380
Total comprehensive income for the year attributable to:			
Owners of the Company		**56,198**	78,738
Non-controlling interests		**6,694**	870
		62,892	79,608
Earnings per share	*8*		
Basic (HK cents)		**10.96**	16.15
Diluted (HK cents)		**10.96**	15.99

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position
As at 31 December 2019

	NOTES	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**4,621**	4,614
Right-of-use assets		**21,320**	–
Goodwill		**9,735**	9,735
Intangible asset		**9,168**	11,560
Deposits, prepayments and other receivables		**7,192**	109
Deferred tax asset		**3,792**	–
Financial assets at fair value through profit or loss		**127,820**	123,297
		183,648	149,315
CURRENT ASSETS			
Inventories		**182,368**	256,169
Trade receivables	*9*	**792,032**	471,044
Deposits, prepayments and other receivables		**72,672**	51,666
Debt instruments at fair value through other comprehensive income		**–**	4,232
Financial assets at fair value through profit or loss		**–**	4,197
Pledged bank deposits		**161,373**	103,664
Bank balances and cash		**186,068**	159,568
		1,394,513	1,050,540
CURRENT LIABILITIES			
Trade payables	*10*	**370,989**	398,174
Other payables and accrued charges		**73,453**	96,291
Lease liabilities		**7,973**	–
Contract liabilities		**18,112**	13,808
Amount due to a non-controlling shareholder of a subsidiary		**255**	2,005
Tax liabilities		**25,097**	14,686
Bank and other borrowings		**434,815**	59,255
		930,694	584,219
NET CURRENT ASSETS		**463,819**	466,321
TOTAL ASSETS LESS CURRENT LIABILITIES		**647,467**	615,636

	As at 31 December 2019 *HK$'000*	As at 31 December 2018 *HK$'000* (Restated)
NON-CURRENT LIABILITIES		
Deferred tax liability	**1,513**	1,907
Lease liabilities	**13,958**	–
	15,471	1,907
NET ASSETS	**631,996**	613,729
CAPITAL AND RESERVES		
Share capital	**39**	39
Reserves	**578,935**	568,337
Equity attributable to owners of the Company	**578,974**	568,376
Non-controlling interests	**53,022**	45,353
	631,996	613,729

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited ("**Stock Exchange**"). Its parent is Smart IC Limited, a private company incorporated in the British Virgin Islands and its ultimate controlling party is Mr. Tian Weidong ("**Mr. Tian**"). The Company is an investment holding company. The Company's subsidiaries are principally engaged in the trading of electronics components.

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

2. ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2018

Pursuant to Hong Kong Financial Reporting Standards ("**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 ("**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 year (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 consolidated statement of financial position as at 31 December 2018 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)

The adjustment to provisional values for business combination in 2018 made in the comparative figures and the reclassifications had no impact to the Group's consolidated statement of financial position as at 1 January 2018 and the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017, accordingly, the third consolidated statement of financial position is not presented.

3. REVENUE

Disaggregation of revenue from contracts with customers

	2019	2018
	HK$'000	*HK$'000*
Types of goods:		
Sale of electronic components	**4,762,816**	4,935,634
Sales channel/product lines:		
Authorised distribution		
Television products	**2,086,217**	2,221,557
Smart terminals	**537,247**	770,124
Optoelectronic displays	**531,747**	499,166
Memory products	**493,207**	638,328
Others *(note)*	**651,435**	733,186
	4,299,853	4,862,361
Independent distribution	**462,963**	73,273
	4,762,816	4,935,634

Note: Others mainly comprising the sales of communication products, optical communication and security products.

In addition, the Group's disaggregation of revenue by geographical markets is disclosed in Note 4.

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 the 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 31 December 2019 and 2018, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

4. SEGMENT INFORMATION

Information reported to the board of directors, being the chief operating decision maker ("**CODM**"), for the purpose of resources allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 *Operating Segments* are as follows:

1. Authorised distribution

2. Independent distribution

In October 2018, the Group commenced engaging in independent distribution along with the acquisition of Quiksol Group, and it is considered as a new operating and reporting segment by the CODM in current year as the Group expanded its independent distribution business. Prior year segment disclosures have been represented to conform with the current year's presentation.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segments:

For the year ended 31 December 2019

	Authorised distribution	**Independent distribution**	**Segment total**	**Elimination**	**Consolidated**
	HK$'000	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE					
Revenue from external customers	4,299,853	462,963	4,762,816	–	4,762,816
Inter-segment sales*	249	35	284	(284)	–
	4,300,102	462,998	4,763,100	(284)	4,762,816
Segment profit	48,691	10,433	59,124	–	59,124

* Inter-segment sales are charged at cost

Less: Unallocated expenses	(4,229)
Interest income from debt instruments at fair value through other comprehensive income ("**FVTOCI**")	108
Fair value change on financial assets at fair value through profit or loss ("**FVTPL**")	6,772
Profit for the year	61,775

For the year ended 31 December 2018 (Restated)

	Authorised distribution *HK$'000*	**Independent distribution** *HK$'000* *(Note)*	**Consolidated** *HK$'000*
SEGMENT REVENUE			
Revenue from external customers	4,862,361	73,273	4,935,634
Segment profit	98,438	1,449	99,887
Less: Unallocated expenses			(2,539)
Interest income from debt instruments at FVTOCI			418
Fair value change on financial assets at FVTPL			(1,154)
Share-based payments			(15,232)
Profit for the year			81,380

Note: The operating results of independent distribution include the effect arising from amortisation and deferred tax on intangible asset identified from business combination over the estimated useful life of the intangible asset.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of unallocated expenses, interest income from debt instruments at FVTOCI, fair value change on financial assets at FVTPL and share-based payments. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Geographical information

The Group principally operates in Hong Kong and the People's Republic of China (the "**PRC**").

The following table provides an analysis of the Group's sales by geographical market based on the jurisdictions where the relevant group entities were set up, which are also their place of operations during the year, irrespective of the origin of goods and the location of customers.

Revenue from external customers based on location of operations of the relevant group entities

	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**4,520,079**	4,823,244
The PRC	**242,737**	112,390
	4,762,816	4,935,634

Information about major customers

Revenue from customers in respect of sales of goods of the year contributing over 10% of the total revenue of the Group is as follows:

	2019	2018
	HK$'000	*HK$'000*
Customer 1	**1,011,571**	1,440,825
Customer 2	**988,989**	944,020

There are no other revenue from transaction with a single external customer amounted to 10% or more of the total revenue of the Group during the years ended 31 December 2019 and 2018.

5. INCOME TAX EXPENSES

	2019	2018
	HK$'000	*HK$'000*
		(Restated)
Current tax:		
Hong Kong Profits Tax	**11,760**	18,298
PRC Enterprise Income Tax	**2,201**	2,178
	13,961	20,476
Deferred tax	**(4,186)**	(66)
	9,775	20,410

6. PROFIT FOR THE YEAR

	2019	2018
	HK$'000	*HK$'000*
		(Restated)
Profit for the year has been arrived at after charging:		
Directors' emoluments	**5,056**	4,838
Staff costs		
Salaries and other allowances	**64,018**	43,528
Discretionary bonus	**27,621**	20,352
Retirement benefit scheme contributions	**10,479**	8,859
Share-based payments	**–**	15,232
Total staff costs	**107,174**	92,809
Allowance for inventories recognised (included in cost of sales)	**2,394**	1,536
Amortisation of intangible asset (included in selling and distribution expenses)	**2,392**	399
Auditor's remuneration	**2,080**	1,750
Cost of inventories recognised as an expense	**4,489,486**	4,700,028
Depreciation of property, plant and equipment	**1,789**	1,962
Depreciation of right-of-use assets	**5,084**	–
Minimum lease payments under operating leases in respect of office premises	**–**	7,867

7. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distributions during the year		
2019 — Interim — HK2 cents (2018: 2018 interim dividend HK2 cents) per share	**10,082**	10,000
2018 — Final — HK4 cents (2018: 2017 final dividend HK3 cents) per share	**20,164**	15,000
	30,246	25,000

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK2 cents (2018: final dividend in respect of the year ended 31 December 2018 of HK4 cents) per ordinary share, in an aggregate amount of approximately HK$9,882,000 (2018: HK$20,164,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

8. EARNINGS PER SHARE

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

	Year ended 31 December 2019 *HK$'000*	Year ended 31 December 2018 *HK$'000* (Restated)
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**55,102**	80,499

	Year ended 31 December 2019	Year ended 31 December 2018
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**502,714,302**	498,352,854
Effect of dilutive potential ordinary shares:		
Unvested shares under share award scheme	**12,027**	5,212,740
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**502,726,329**	503,565,594

For the year ended 31 December 2019, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account for the effect of the ordinary shares of the Company repurchased from the market during 2019 and 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.

For the year ended 31 December 2018, 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.

9. TRADE RECEIVABLES

	2019 *HK$'000*	2018 *HK$'000*
Trade receivables	**814,844**	346,696
Less: allowance for credit losses	**(22,812)**	(7,660)
	792,032	339,036
Trade receivables under factoring agreement *(note)*	**–**	132,008
	792,032	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 FVTPL 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 1 January 2018, trade receivables from contracts with customers amounted to HK$319,026,000.

As at 31 December 2019, total bills received amounting to HK$69,000 (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 (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:

	2019	2018
	HK$'000	*HK$'000*
0–60 days	**604,735**	340,725
61–120 days	**133,312**	67,425
Over 120 days	**53,985**	62,894
	792,032	471,044

10. TRADE PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**370,989**	398,174

The credit period for trade payables ranging from 0 to 60 days (2018: 0 to 60 days).

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

	2019	2018
	HK$'000	*HK$'000*
0–30 days	**291,333**	294,334
31–60 days	**54,207**	103,361
61–90 days	**25,369**	461
Over 90 days	**80**	18
	370,989	398,174

As at 31 December 2019, included in the trade payable is HK$44,811,000 (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.

FINAL DIVIDEND

The Board resolved to recommend a final dividend of HK2 cents per share for the year ended 31 December 2019 to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company on Friday, 5 June 2020. Subject to the approval by the Shareholders at the forthcoming Annual General Meeting (as defined below) to be held on Tuesday, 26 May 2020, the proposed final dividend is expected to be paid on or about Friday, 26 June 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group acquired the Quiksol Group in 2018, expanding the Group's distribution business by adding independent distribution business to authorised distribution business. Amid the volatile international market in 2019, the global economic growth slowed down significantly and the downward pressure exerted on the major economies surged. The semiconductor market was also affected by the macroeconomic situation, resulting in a decrease in demand. Coupled with other factors such as decline in memory price, the global semiconductor sales have decreased considerably in 2019. Driven by favorable factors such as 5G commercialization in various countries around the world, doubled sales of smart speakers, booming smart wearable market, and promising prospects of semiconductor market including security, auto semiconductors, Internet of Things ("**IoT**") and AI applications, the sales of semiconductor chips have been improving in the second half of 2019.

Despite the poor general market conditions in 2019, the Group managed to maintain a stable development. The Group's overall consolidated revenue for the year amounted to HK$4.76 billion, representing a slight decrease of 3.5% as compared with 2018. The independent distribution business achieved a growth while the authorised distribution business posted a decrease, among the authorised business: the annual sales of television products, smart terminals, and communication products showed a year-on-year decrease, sales of optoelectronic display product slightly increased while the sales of security and optical communication products achieved rapid growth. The Group's independent distribution business, which was mainly contributed from Quiksol Group, recorded a steady growth in 2019. The business review of each major product line is as follows:

Authorised Distribution

Television Products

The sales of TV System on Chip ("**SoC**") chips are one of the core businesses of the Group. In light of the intensified price competition of TV SoC chips in 2019, together with the continual decrease in Dynamic Random Access Memory ("**DRAM**") prices since the end of 2018, more customers preferred external DRAM products in the face of high unit price of SoC chips with built-in DRAM storage integration features and price fluctuation of memory. As the unit price of mid-end and low-end TV SoC chips has dropped, the total amount of TV chip orders for the same shipment volume will decrease. Due to the above factors, the sales of the Group's TV business slightly declined in 2019. In 2019, the accumulative sales of this product line amounted to HK$2,086.2 million, representing a decrease of 6.1% as compared with 2018.

Smart Terminals

Set-top box is the core of the Group's smart terminal business. At present, the set-top box market is dominated by Digital Video Broadcasting ("**DVB**"), Internet Protocol Television ("**IPTV**") and Over-The-Top ("**OTT**"). According to the Ministry of Industry and Information Technology, as of the end of November 2019, the total number of IPTV users reached 294 million with a penetration rate of home users of 65.8%, becoming the major mainstream video transmission channel under National Radio and Television Administration. The number of OTT users nationwide also reached 220 million, outperforming the number of traditional cable TV users. Affected by IPTV and OTT, as of the third quarter of 2019, the total number of cable TV DVB users in China dropped to 212 million, representing a decrease of approximately 40 million as compared with the peak in 2016.

Given the stiff competition of the market, coupled with other factors such as Sino-US trade friction, growth of overseas market is limited, the Group felt the pinch and saw a considerable decline in the sales of set-top box chips in 2019. In 2019, the sales of smart terminal products amounted to HK$537.2 million, representing a decrease of 30.2% as compared with 2018.

Optoelectronic Displays

The Group's optoelectronic display product line mainly focuses on the sales of integrated circuit ("**IC**") related to displays and screen modules. According to the data for global shipment of personal computer ("**PC**") in 2019 from research firms, namely IDC and Gartner, the sales of PC in 2019 experienced a turnaround from decline in the past seven years to growth. The shipment volume of certain enterprises exceeded 260 million units. Since the PC shipments have bottomed out, the demand for display products will also increased.

As for liquid crystal display ("**LCD**") displays, with the investments from Chinese panel manufacturers, sluggish demand and oversupply in the market, the competition in panel modules remained fierce and the prices significantly decreased. However, as certain manufacturers planned to gradually shut down or adjust their existing production lines to optimize their product portfolio financial structure, the excess supply and demand of panels will alleviate in 2020 and the market share of Chinese panel manufacturers will further increase.

In 2019, the optoelectronic display business of the Group showed healthy development. The sales of optoelectronic displays amounted to HK$531.7 million, representing an increase of 6.5% as compared with 2018.

Memory Products

With the development of big data, cloud computing and IoT and the improvement of product intelligence, memory chips play a much more important role in the entire industry chain, accounting for approximately one-third of the whole industry.

The sales of memory chips in 2019 have fallen sharply after hitting its peak in 2018. According to Gartner, a research firm, the overall sales of memory chips in 2019 decreased by 31.5% year-on-year due to the continued decline in prices of non-volatile memory technology ("**NAND**") flash and DRAM. Against such backdrop, the sales performance of the Group's memory products also showed a substantial decline in 2019. The accumulative sales of memory products amounted to HK$493.2 million, representing a decrease of 22.7% as compared with 2018.

Others

Others mainly comprise communication products, optical communication, security products and other product lines. Sales of this business unit recorded year-on-year decrease by 11.1% as compared with the corresponding period in 2018. Although sales of optical communication and security products started to increase gradually in 2019 and were benefited from growth in industry scale to achieve rapid growth in short term, the aggregated volume was insignificant and did not bring significant impact to growth of sales of the Company as a whole. However, communication products were affected by decrease in market price of MCP memory chips, the result of the whole product line showed significant drop.

Independent Distribution

The Group's independent distribution business was mainly contributed from Quiksol Group and the revenue from independent distribution amounted to HK$463.0 million representing an increase of over 500% as compared with 2018, as the Group acquired Quiksol Group in October 2018.

In 2019, due to the worldwide substantial price reduction of over 50% of memory products, one of our core businesses, together with the wait-and-see attitudes of the customers, the turnover has declined in the first half of 2019. In the second half of 2019, the price reduction of memory products has become more stable and customers began to place more orders rather than remaining hesitant. Meanwhile, in view of the central processing unit ("**CPU**") shortages and price increment, the management also adjusted its strategy to focus on the CPU requirements of the PC and server industries, resulting in a significant increase in turnover in the second half of the year.

OUTLOOK

In 2019, the sales of global semiconductor industry plunged. However, in light of the signs of improvement from the data of the second half of 2019, analysts and market participants are optimistic about the development of the semiconductor industry in 2020. Nevertheless, due to the outbreak of the novel coronavirus at the end of 2019, the market outlook has been clouded by uncertainties. The outlook of the Group, especially its business directions, is as follows:

Authorised Distribution

Television Products

Despite the year-on-year decline in TV sales in China in 2019, thanks to various favorable factors including the strong replacement demand for old TVs and the gradual downward price adjustments of high-end organic light-emitting diode ("**OLED**") and Quantum Dot Light Emitting Diodes ("**QLED**") quantum dots TVs for penetrating into mid-end and low-end market, it is generally believed that the TV shipments in China will break out from its decreasing trend and return to mild growth in 2020.

At CES2020, major TV manufacturers around the world launched their new products, demonstrating the acceleration of maturation and innovation of 8K technology, continuous diversification of screens, and applications of computer visual and voice recognition technology in TVs. It is expected that 5G+4K/8K+AI+IoT will become the highlight of TV technology development in 2020 and beyond.

TVs will no longer be the traditional video displays in the living room in the future. Many manufacturers are committed to developing TV screens as interactive accesses for the entire smart home application systems, thereby paving a path for the TV industry towards high-quality development.

As a result, the large scale and slowdown in growth rate of the entire industry will not hinder its development prospects. By maintaining the sales of the Group's TV SoC chips at a high level, the Group will focus on expanding new applications and new markets and developing upstream and downstream technologies in the future to gain a cluster advantage.

Smart Terminals

According to the "White Paper on Ecology of Large-screen TV in China in 2020" (《2020中國電視大屏生態白皮書》), with the popularization of network and intellectualization, the connections between traditional cable TV DVB set-top boxes and OTT will be strengthened. It is expected that large-screen TVs and smart set-top boxes will become essential accesses for application systems in living rooms, covering e-commerce, education and medical care and providing more valuable value-added services. 5G will empower more 4K/8K ultra-high definition video applications, thereby adding another favorable factor for the development of the set-top box industry. According to a report issued by ZION, a market research firm, it is expected that the market size of 4K ultra-high definition set-top boxes will reach approximately US$ 3.091 billion by 2024, representing a compound annual growth rate of approximately 32.8% from 2018 to 2024. Driven by the high per capita income and popularization of 4K TV, North America and China will become the major markets for 4K set-top boxes.

As a result, along with the product technology upgrades, the integrated circuits and other electronic components used in 4K ultra-high definition smart set-top boxes will maintain a good market prospect in forthcoming years. By focusing on the new applications of AI on smart terminals, the Group will look for more business opportunities in such fields.

Memory Products

According to a memory industry report issued by UBS in January 2020, the price reduction cycle of DRAM in terms of capacity will come to an end in the first half of 2020 and start to pick up in the second half of 2020. In addition, owing to the application of 3D high-stacking technology, NAND flash memory will enjoy cost reduction. However, as the major NAND original manufacturers will adopt a conservative approach on their capital expenditure and slow down the growth of production capacity in 2020, a better or tightening market supply and demand balances may be achieved and the flash memory prices may stop falling.

With the rapid growth of data volume and product intellectualization, data storage applications will be more widely used and the importance of memory chips to the electronics industry will further increase. Therefore, the Group will continue to invest resources to expand its business scale and actively explore new business opportunities, including setting up and operating a new storage solutions company for such segment to establish its presence.

Optoelectronic Displays

With the upcoming events in 2020, coupled with the buoyant development of innovative application markets in Industrial IoT, smart automobiles, smart manufacturing, remote education and remote medical care, the global demand for display panels will continue to grow in 2020 and achieve a balance between the overall supply and demand.

As for LCD displays, it is estimated that the shipment volume of medium and large screens (i.e. over 23.6 inches) will account for 50% of the total shipment volume in 2020. With the popularization of large screens, the market share of 4K/5K/8K high-resolution displays will further increase. By providing leading technological solutions and chips for displays and screens, the Group will enjoy bright prospects at the time of market recovery and domination by domestic panel manufacturers.

Others

The Group's strategic on Others is to develop certain products into a meaningful product lines. In 2020, the Group's communication products will continue to focus on business opportunities of electronic components of cellular data module. It will also concern application opportunities of cellular data module in different product lines, in combination with the Company's data and software services. Meanwhile, as governments, enterprises and consumers around the world raise their awareness on securities, they become more willing to pay for security systems, driving continuous growth of the demand for security products. The Group will also extend its effort on expanding security field to diversify its business and increase market shares. For fields of other products, the Group has also started plotting gradually, for example, industrial control and medical industry will hopefully generate new values in 2020.

Independent Distribution

Surrounded by uncertainties of the Sino-US trade war, we are committed to improve our services and our ability of securing orders from overseas markets and look for potential opportunities. Meanwhile, the supply of memory and CPU, our core products, remains tight. Driven by rebounding demand, it is expected that such segment will continue to make contributions to the Group.

On the whole in 2020, the Group will continue to focus on expanding and enhancing its existing authorized distribution business, investing more resources in new business segments which have achieved breakthroughs, and consolidating and expanding its market share. The Group will also continue to develop and invest in its independent distribution and technology value-added businesses to improve the return on investment.

By investing in technology and research and development, and adhering to intellectual property rights standards to strengthen the construction of intellectual property rights management system, the Group is committed to building up its core competitiveness. We will also identify, approach and evaluate investments and targets for acquisition and merger in the capital market to take action when the right opportunity arises. Looking ahead, while maintaining the stable operation of the Group, we will boost the development of our business, with an aim to create greater return and long-term value for the Shareholders.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group's revenue amounted to HK$4,762.8 million (2018: HK$4,935.6 million), representing a decrease of HK$172.8 million (3.5%) as compared with the revenue for the year ended 31 December 2018.

The decrease in revenue level was mainly caused by the combination effect of the decrease in the sales from our television products, memory products and other products of approximately HK$562.5 million and the increase in the sales from independent distribution of approximately HK$389.7 million.

Gross profit

Our gross profit for the year ended 31 December 2019 increased by HK$36.8 million to HK$270.9 million as compared with the prior year (2018: HK$234.1 million). Our gross profit margin increased by 1.0% to 5.7% for the year ended 31 December 2019 (2018: 4.7%). The increase in gross profit margin was principally the combined effect of the higher gross profit margin from the independent distribution business and one-off rebates from our suppliers which decreased our cost of sales.

Research and development expenses

Research and development expenses mainly comprise of staff costs incurred for our research and development department. For the year ended 31 December 2019, research and development expenses amounted to HK$24.0 million, decreased by 11.4% as compared with the year ended 31 December 2018 (2018: HK$27.1 million). The decrease was mainly due to no share-based payment expenses were recognized for the year ended 31 December 2019 (2018: HK$1.9 million).

Administrative, selling and distribution expenses

Administrative, selling and distribution expenses aggregated to HK$153.5 million for the year ended 31 December 2019 (2018: HK$109.4 million), which accounted for 3.2% of the revenue for the year ended 31 December 2019 as compared with 2.2% over the corresponding year in 2018. The net increase of HK$44.1 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 interest expense on bank and other borrowings for the year ended 31 December 2019 amounted to HK$27.3 million, a decrease of HK$0.1 million as compared with that in 2018 (2018: HK$27.4 million). Interest expenses mainly represent the borrowings cost from entering into various factoring agreements with some of the principal bankers.

Profit for the year

For the year ended 31 December 2019, the Group's profits amounted to HK$61.8 million, representing a decrease of HK$19.6 million as compared to HK$81.4 million in 2018, a decrease of 24.1%. The net profit margin for the year ended 31 December 2019 was 1.3%, compared to 1.6% for the year ended 31 December 2018. The decrease in the profit for the year was mainly contributed by the increase in impairment losses recognised under expected credit losses model on certain of trade receivables of our small and medium enterprise customers upon the change in the economic environment.

Net profit attributable to the owners of the Company

The net profit attributable to the owners of the Company for the year ended 31 December 2019 amounted to HK$55.1 million, representing a decrease of 31.6% as compared with the year ended 31 December 2018 (2018: HK$80.5 million).

Use of proceeds from the global offering

The shares of the Company were listed (the "**Listing**") on The Stock Exchange of Hong Kong Limited on 7 October 2016. 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$117.1 million of the net proceeds as at 31 December 2019. The unutilised net proceeds have been placed as deposits with banks.

Use of Proceeds	Net proceeds *(in HK$ million)*	Utilised as at 31 December 2019 *(in HK$ million)*	Amount remaining *(in HK$ million)*
1. Hiring additional staff for sales and marketing and business development and improvement of warehouse facilities	20.6	(20.6)	0.0
2. Advertising and organizing marketing activities for the promotion of our e-commerce platform Smart Core Planet and our new products	41.2	(25.6)	15.6
3. Enhancing, further developing and maintain our e-commerce platform and improving our technology infrastructure	41.2	(4.2)	37.0
4. For research and development	20.6	(20.6)	0.0
5. Funding potential acquisition of, or investment in business or companies in the e-commerce industry or electronics industry	61.7	(25.6)	36.1
6. General working capital	20.5	(20.5)	0.0
	205.8	(117.1)	88.7

Liquidity and financial resources

The Group's primary source of funding included 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 31 December 2019, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK$347.4 million (31 December 2018: HK$263.2 million).

As at 31 December 2019, the outstanding bank and other borrowings of the Group were HK$434.8 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 72.3% as at 31 December 2019 as a result of the increased level of bank borrowings to finance our expanded working capital needs as well as bank borrowings under certain factoring agreements are no longer derecognised as at 31 December 2019.

As at 31 December 2019, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK$955.8 million and HK$521.0 million (31 December 2018: HK$949.0 million and HK$554.0 million) respectively.

As at 31 December 2019, the Group had current assets of HK$1,394.5 million (31 December 2018: HK$1,050.5 million) and current liabilities of HK$930.7 million (31 December 2018: HK$584.2 million). The current ratio was 1.50 times as at 31 December 2019 (31 December 2018: 1.80 times).

The Group's debtors' turnover period was 48 days for the year ended 31 December 2019 as compared to 29 days for the year ended 31 December 2018. The overall debtors' turnover period was within the credit period. The increase in debtors' turnover period was due to the delay in payments from certain of our small and medium enterprises customers upon the change in the economic environment, as well as receivables of certain of our customers are no longer derecognised under factoring agreements as at 31 December 2019.

The creditors' turnover period was 31 days for the year ended 31 December 2019 as compared with 30 days for the year ended 31 December 2018. The creditors' turnover period has been maintaining at a stable level.

The inventories' turnover period was 18 days for the year ended 31 December 2019 as compared with 20 days for the year ended 31 December 2018. Inventory control was always one of the primary tasks of the Group's management team to maintain the liquidity and healthy financial position of the Group. Inventories' turnover period remained relatively stable in both years.

Foreign currency exposure

The Group's transactions are principally denominated in US 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$1.5 million for the year ended 31 December 2019 (31 December 2018: net foreign exchange gain of HK$0.1 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 31 December 2019, the financial assets at fair value through profit or loss ("**FVTPL**") amounted to HK$127.8 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$308.9 million (31 December 2018: HK$nil) and bank deposits amounted to HK$161.4 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 during the years ended 31 December 2019 and 2018.

Significant investment held

Save for the financial assets at FVTPL and debt instruments at FVTOCI as disclosed above, the Group did not hold any significant investments during the years ended 31 December 2019 and 2018.

Material acquisition and disposal of subsidiaries and associated companies

The Group has no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2019.

Employees

As at 31 December 2019, the Group had 387 employees (31 December 2018: 353 employees), with a majority based in Shenzhen, Suzhou and Hong Kong. Total employee cost for the year ended 31 December 2019, excluding the remuneration of the Directors were approximately HK$102.1 million (31 December 2018: HK$87.9 million). There have been no material changes to the information disclosed in the prospectus dated 27 September 2016 in respect of the remuneration of employees, remuneration policies, share award scheme, share option scheme and staff development.

On 19 September 2016, the Company adopted a share award scheme ("**Share Award Scheme**") and conditionally approved and adopted a share option scheme ("**Share Option Scheme**").

In relation to the Share Award Scheme, the Board may, from time to time, at its absolute discretion, select any of our directors, senior managers and employees of the Group to participate in the Share Award Scheme ("**Selected Participants**"), subject to the terms and conditions set out in the Share Award Scheme. In determining the Selected Participants, the Board shall take into consideration matters including, but without limitation, the present and expected contribution of the relevant Selected Participants to the Group.

In relation to the Share Option Scheme, the Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of the Group or associated companies of the Company.

During the year ended and as at 31 December 2019, no share awards were granted to the employees by the Company pursuant to the Share Award Scheme.

Details of movement of shares awarded under the Share Award Scheme during the Reporting Period were as follows:

		Number of shares					
Date of grant	Average fair value Per share *HK$*	As at 1 January 2019	Granted during the year	Vested during the year	Lapsed during the year	As at 31 December 2019	Vesting period
28 March 2018	1.59	4,390,000	–	(4,390,000)	–	–	28 March 2018 – 2 January 2019

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2019, the Company bought back a total of 10,900,000 Shares on the Stock Exchange (the "**Share Repurchase**"). A total of 10,000,000 shares bought back were subsequently cancelled by the Company on 20 January 2020. Details of the purchases of shares are as follows:

Month of buy-back	Number of Shares bought back	Price per Share Highest *HK$*	Lowest *HK$*	Aggregate price (excluding commission fee and etc) *HK$*
September	100,000	1.27	1.26	126,200
October	2,660,000	1.35	1.23	3,438,940
November	1,280,000	1.40	1.30	1,753,820
December	6,860,000	1.51	1.34	9,980,020

The Board believes that the Share Repurchase may, depending on market conditions and funding arrangements at that time, lead to an enhancement of its earning per Share, and will benefit the Company and Shareholders. Please refer to the announcement of the Company dated 26 August 2019 for further details in relation to the Company's share repurchase plan.

Save as disclosed above, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2019.

EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Novel Coronavirus

As a result of the outbreak of the coronavirus disease ("**COVID-19**") and subsequent quarantine measures imposed in China, some of the customers' operation were impacted by these measures and orders to the Group were delayed due to these measures in early 2020.

As the situation remains fluid as at the date of this announcement, the financial effects of the COVID-19 on the Group cannot be reasonably estimated. Nevertheless, the COVID-19 outbreak is expected to affect the performance of the Group in the second and the third quarters of this year.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board has committed to maintaining high corporate governance standards. The Board believes that good corporate governance, by 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 Rules Governing the Listing of Securities on the Stock Exchange (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 year ended 31 December 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 during the year ended 31 December 2019.

SUFFICIENCY IN PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, were held by the public during the year ended 31 December 2019 and up to the date of this announcement.

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 audited consolidated financial statements of the Group for the year ended 31 December 2019 and discussed with the management the accounting policies adopted by the Group and financial reporting matters of the Group.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF FINAL RESULTS

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.smart-core.com.hk). The annual report of the Company for the year ended 31 December 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.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**Annual General Meeting**") will be held on Tuesday, 26 May 2020. A notice of the Annual General Meeting will be published on the websites of the Stock Exchange and the Company and dispatched to the Shareholders in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For ascertaining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Thursday, 21 May 2020 to Tuesday, 26 May 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar 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 for registration no later than 4:30 p.m. on Wednesday, 20 May 2020. For ascertaining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 3 June 2020 to Friday, 5 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final 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 2 June 2020.

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

Hong Kong, 30 March 2020

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.