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 2020

FINANCIAL HIGHLIGHTS

- Total revenue of the Group for the six months ended 30 June 2020 amounted to HK$2,126.9 million (2019: HK$2,090.1 million), representing an increase of 1.8% as compared with the corresponding period in 2019.
- Gross profit of the Group for the six months ended 30 June 2020 amounted to HK$120.3 million (2019: HK$124.6 million), representing a decrease of 3.5% as compared with the corresponding period in 2019.
- Net profit attributable to the owners of the Company for the six months ended 30 June 2020 amounted to HK$29.8 million (2019: HK$29.8 million), maintaining at the same level as compared with the corresponding period in 2019.
- Basic earnings per share for the six months ended 30 June 2020 was HK6.05 cents (2019: HK5.91 cents).
- The Board resolved to declare an interim dividend of HK2 cents per share for the six months ended 30 June 2020 (six months ended 30 June 2019: 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**", "**we**" or "**our**") for the six months ended 30 June 2020 (the "**Reporting Period**") with the comparative figures for the corresponding period in 2019. 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 2020

	Notes	Six months ended 30 June **2020** *HK$'000* **(unaudited)**	2019 *HK$'000* (unaudited)
Revenue	*3*	**2,126,863**	2,090,115
Cost of sales		**(2,006,565)**	(1,965,490)
Gross profit		**120,298**	124,625
Other income		**4,620**	7,175
Other gains or losses, net		**91**	4,066
Impairment losses reversed (recognised) under expected credit loss model, net		**7,236**	(3,571)
Research and development expenses		**(11,184)**	(11,877)
Administrative expenses		**(27,793)**	(28,282)
Selling and distribution expenses		**(41,232)**	(40,196)
Finance costs		**(9,809)**	(13,888)
Profit before tax	*4*	**42,227**	38,052
Income tax expense	*5*	**(7,387)**	(6,136)
Profit for the period		**34,840**	31,916
Other comprehensive (expenses) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(537)**	44
Fair value loss on debt instruments at fair value through other comprehensive income		**–**	(20)
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
		(537)	129
Total comprehensive income for the period		**34,303**	32,045

	Note	Six months ended 30 June **2020** ***HK$'000*** **(unaudited)**	 2019 *HK$'000* (unaudited)
Profit for the period attributable to:			
Owners of the Company		**29,816**	29,792
Non-controlling interests		**5,024**	2,124
		34,840	31,916
Total comprehensive income for the period attributable to:			
Owners of the Company		**29,271**	29,904
Non-controlling interests		**5,032**	2,141
		34,303	32,045
Earnings per share:			
Basic *(HK cents)*	*7*	**6.05**	5.91
Diluted *(HK cents)*		**N/A**	5.91

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Financial Position
As at 30 June 2020

	Notes	**As at 30 June 2020** *HK$'000* **(unaudited)**	As at 31 December 2019 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment		**4,251**	4,621
Right-of-use assets		**17,878**	21,320
Goodwill		**9,735**	9,735
Intangible asset		**7,973**	9,168
Deposits, prepayments and other receivables		**5,672**	7,192
Deferred tax asset		**2,599**	3,792
Financial assets at fair value through profit or loss		**127,919**	127,820
		176,027	183,648
Current assets			
Inventories		**190,632**	182,368
Trade receivables	*8*	**685,166**	792,032
Deposits, prepayments and other receivables		**90,047**	72,672
Tax recoverable		**846**	–
Pledged bank deposits		**131,980**	161,373
Bank balances and cash		**228,384**	186,068
		1,327,055	1,394,513
Current liabilities			
Trade payables	*9*	**394,569**	370,989
Other payables and accrued charges		**61,389**	73,453
Lease liabilities		**7,879**	7,973
Contract liabilities		**17,239**	18,112
Amount due to a non-controlling shareholder of a subsidiary		**919**	255
Tax liabilities		**–**	25,097
Bank and other borrowings		**351,978**	434,815
		833,973	930,694
Net current assets		**493,082**	463,819
Total assets less current liabilities		**669,109**	647,467

	As at 30 June 2020 *HK$'000* (unaudited)	As at 31 December 2019 *HK$'000* (audited)
Non-current liabilities		
Deferred tax liability	**1,316**	1,513
Lease liabilities	**10,779**	13,958
	12,095	15,471
Net assets	**657,014**	631,996
Capital and reserves		
Share capital	**38**	39
Reserves	**597,947**	578,935
Equity attributable to owners of the Company	**597,985**	578,974
Non-controlling interests	**59,029**	53,022
	657,014	631,996

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 2020 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 2019.

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$**").

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 amendments to Hong Kong Financial Reporting Standards ("**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 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's unaudited condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the 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 of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the unaudited condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

3A. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Types of goods:		
Sale of electronic components	**2,126,863**	2,090,115
Sales channel/product lines:		
Authorised distribution		
Television products	**718,489**	993,992
Smart terminals	**122,764**	240,154
Optoelectronic displays	**398,456**	194,122
Memory products	**255,549**	220,309
Others *(note)*	**388,233**	271,868
	1,883,491	1,920,445
Independent distribution	**243,372**	169,670
	2,126,863	2,090,115
Geographical markets:		
Hong Kong	**1,998,851**	1,984,492
The People's Republic of China ("**PRC**")	**128,012**	105,623
	2,126,863	2,090,115

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

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 discharge 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 30 June 2020 and 2019, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

3B. OPERATING SEGMENT

Information reported to the executive directors of the Company, 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

The Group commenced engaging in independent distribution along with the acquisition of Quiksol International HK Pte Limited ("**Quiksol HK**") and its subsidiary, and it is considered as a new operating and reporting segment by the CODM as the Group expanded its independent distribution business. Prior period 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.

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

Six months ended 30 June 2020 (unaudited)

	Authorised distribution *HK$'000*	Independent distribution *HK$'000* *(note)*	Segment total *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE					
Revenue from external customers	**1,883,491**	**243,372**	**2,126,863**	**–**	**2,126,863**
Inter-segment sales*	**1,668**	**298**	**1,966**	**(1,966)**	**–**
	1,885,159	**243,670**	**2,128,829**	**(1,966)**	**2,126,863**
Segment profit	**28,827**	**7,157**	**35,984**	**–**	**35,984**

* Inter-segment sales are charged at cost

Less: Unallocated expenses	**(2,394)**
Fair value change on financial assets at fair value through profit or loss ("**FVTPL**")	**1,250**
Profit for the period	**34,840**

Six months ended 30 June 2019 (unaudited) (restated)

	Authorised distribution *HK$'000*	Independent distribution *HK$'000* *(note)*	Segment total *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE					
Revenue from external customers	1,920,445	169,670	2,090,115	–	2,090,115
Inter-segment sales*	212	164	376	(376)	–
	1,920,657	169,834	2,090,491	(376)	2,090,115
Segment profit	27,462	2,734	30,196	–	30,196

* Inter-segment sales are charged at cost

Less: Unallocated expenses	(2,935)
Fair value change on financial assets at FVTPL	4,547
Interest income from debt instruments at fair value through other comprehensive income ("**FVTOCI**")	108
Profit for the period	31,916

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 to the Group's annual financial statements for the year ended 31 December 2019. Segment profit represents the profit earned by each segment without allocation of unallocated expenses, interest income from debt instruments at FVTOCI and fair value change on financial assets at FVTPL. 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.

4. PROFIT BEFORE TAX

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit before tax has been arrived after charging (crediting):		
Allowance for inventories	**2,970**	9,362
Amortisation of intangible asset (included in selling and distribution expenses)	**1,195**	1,195
Bank interest income (included in other income)	**(547)**	(889)
Cost of inventories recognised as an expense	**2,003,595**	1,956,128
Depreciation of property, plant and equipment	**792**	1,258
Depreciation of right-of-use assets	**4,184**	874
Interest income from loans to third parties (included in other income)	**(604)**	(3,164)
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**45,862**	46,325
Retirement benefit scheme contributions	**3,121**	5,846
Fair value gain on financial assets at FVTPL	**(1,250)**	(4,547)

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profits Tax	**6,186**	7,317
PRC Enterprise Income Tax	**204**	243
	6,390	7,560
Deferred tax	**997**	(1,424)
	7,387	6,136

6. DIVIDENDS

During the current interim period, a final dividend of HK2 cents per share in respect of the year ended 31 December 2019 (2019: HK4 cents per share in respect of the year ended 31 December 2018) 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$9,882,000 (2019: HK$20,164,000). Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK2 cents (2019: HK2 cents) per share in respect of the six months ended 30 June 2020 will be paid to the shareholders whose names appeared on the register of members as at the close of business on Friday, 18 September 2020.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	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	**29,816**	29,792

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**492,714,689**	503,830,776
Effect of dilutive potential ordinary shares:		
Unvested shares under share award scheme	**N/A**	24,254
Weighted average number of ordinary shares for the purpose of diluted earnings per shares	**N/A**	503,855,030

For the six months ended 30 June 2020 and 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.

No diluted earnings per share is presented for the six months ended 30 June 2020 as there was no potential ordinary shares in issue during the period.

8. TRADE RECEIVABLES

The Group allows credit period of 0 to 120 days (31 December 2019: 0 to 120 days) to its customers. The following is an analysis of trade receivables by age, presented based on the invoice date, which approximated the respective revenue recognition dates.

	As at 30 June 2020 *HK$'000* **(unaudited)**	As at 31 December 2019 *HK$'000* (audited)
0–60 days	**526,270**	604,735
61–120 days	**136,229**	133,312
Over 120 days	**22,667**	53,985
	685,166	792,032

As at 30 June 2020, total bills received amounting to HK$919,000 (31 December 2019: HK$69,000) are held by the Group for settlement of trade receivables. The Group continue to recognise their full carrying amounts at the end of the reporting period.

9. TRADE PAYABLES

The credit period on trade payables ranging from 0 to 60 days (31 December 2019: 0 to 60 days).

The following is an analysis of the trade payables by age, presented based on the invoice date.

	As at 30 June 2020 *HK$'000* **(unaudited)**	As at 31 December 2019 *HK$'000* (audited)
0–30 days	**237,883**	291,333
31–60 days	**89,190**	54,207
61–90 days	**47,411**	25,369
Over 90 days	**20,085**	80
	394,569	370,989

As at 30 June 2020, included in the trade payables is HK$78,565,000 (31 December 2019: HK$44,811,000), 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 2020 and is expected to be paid on or about Wednesday, 30 September 2020 to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 18 September 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 16 September 2020 to Friday, 18 September 2020, 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 Tuesday, 15 September 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2020, the coronavirus disease (COVID-19) continued to spread around the world, while no sign of easing can be seen in global economic and trade frictions, which may lead to a relatively substantial decline in global economic and trade development in 2020. According to the latest report released by the IMF (International Monetary Fund), the global GDP is expected to shrink by 4.9% in 2020. The global economy is in recession, and the segmented markets of semiconductor are mixed. According to the chip sales data from January to April in 2020 provided by SIA (Semiconductor Industry Association) and WSTS (World Semiconductor Trade Statistics), the sales of semiconductor chip market continuously increased at a modest rate. IC Insights (a semiconductor market research company) also put forward optimistic forecast data in the report released in June of this year, although the epidemic has caused catastrophic impact on the global economy, the worldwide semiconductor chip market will still grow by 3.3% in 2020 to reach US$425.9 billion and the market growth rate is expected to accelerate to 6.2% in 2021.

The outbreak of the epidemic has affected the work resumption of the Group's downstream electronics manufacturers and the completion rate of export orders, thus the sales performance of the Group in the first half of the year has been affected as well. The sales performance of the television ("**TV**") product division and the smart terminals product division of the Group's authorised distribution business experienced a relatively significant decline, while the sales performance of product divisions such as the optoelectronic displays, communication, security products, memory products and the Group's independent distribution business enjoyed substantial growth. On the whole, the Group has overcome the adverse effects caused by the epidemic in the first half of 2020 with the overall operating conditions remain stable. The realised sales reached HK$2,126.9 million, representing a slight increase of 1.8% year-on-year, and the gross profit amounted to HK$120.3 million with a year-on-year decrease of 3.5%.

Authorised Distribution

Television Products

The TV set market is greatly affected by the epidemic, therefore resulted in substantial fluctuation in the shipments of TV main chips. According to the shipment figures, due to the traditional Chinese New Year holiday coupled with the outbreak of the domestic epidemic in the first quarter, in addition to the setback of the shipment of domestic sales of TV set, the work resumption after Chinese New Year was also thwarted, and certain overseas orders were not fulfilled. In the second quarter, with the rapid spread of the epidemic around the world, some major sports events were cancelled or postponed, and overseas markets were almost in a state of shutdown, overseas orders began to resume only until various countries gradually unblocked and restarted economy at the end of the second quarter. According to statistics from TrendForce (a market research company), the shipment volume of TV panel in the first half of 2020 was 129.05 million units, representing a year-on-year decrease of 8.4%. The sluggish demand in the terminal market has led to the Group's sales of the TV product chips amounted to HK$718.5 million in the first half of 2020 with a sharp drop of 27.7% compared to 2019.

Memory Products

According to a report released in April by the market research organisation Gartner, the sales revenue of memory chips is expected to account for 30% of the global semiconductor market in 2020, and the amount will reach US$124.7 billion with an increase of 13.9%. Gartner remains optimistic to the memory chip industry. Market information revealed, in the first half of 2020, affected by the epidemic, manufacturers were worried about the unstable upstream supply caused by the epidemic, customers generally took action for bulk stocks in the first quarter, driving the significant growth in the sales performance of memory chips in the first quarter. Due to the slump in orders resulted from the global spread of the epidemic in the second quarter, as well the unburdening inventory of most customer, there was a lack of demand in the memory market and prices began to decline. On the whole, the sales performance of the memory products division in the first half of 2020 realised HK$255.5 million, representing an increase of 16.0% over the same period last year.

Optoelectronic Displays

The Group's optoelectronic display product line mainly focuses on the market promotion and sales of related chips in the fields of liquid crystal displays, touch screen, LCD screen driver, and industrial control. Information from Sigmaintell (a research and consulting company) revealed, along with the gradual shut down of panel manufacturers in South Korea which has led to certain LCD production lines shifting to producing OLED panels, the market structure of large-size LCD panels has changed and the market share of domestic panel manufacturers has begun to increase significantly, which is expected to exceed 50% for the first time in 2020 and is promising to reach around 70% in the future. The increase in the market share of domestic manufacturers will directly drive the rapid growth of demand for electronic components related to screen modules and stimulate the increase brought by the sales of optoelectronic display products.

The growing popularity of multi-camera smart phones has brought about a substantial increase in consumption of cameras, and the sales performance of the CMOS sensor product line has also recorded a significant increase over the same period of last year. In addition, during the epidemic, working and entertaining at home has driven the rapid growth in the demand of LCD monitors, notebooks, tablets and projectors, which has promoted the increase in the sales of optoelectronic display-related product lines. On the whole, in the first half of 2020, the accumulative sales of the optoelectronic display product line amounted to HK$398.5 million, representing a substantial increase of 105.3% over the same period of last year.

Smart Terminals

In the first half of the year, the overall demand for the overseas set-top box market was sluggish, especially in the Indian and European markets, product imports in certain markets remained largely stagnant. In the domestic market, the traditional set-top boxes of radio and television operators and the IPTV boxes of the three major telecom operators also suffered from a sharp drop in demand this year. Insufficient market demand casted comparatively great impact on downstream complete set manufacturers, resulting in a relatively significant year-on-year decline in the Group's sales of set-top box chips for smart terminals. In the first half of 2020, the accumulative sales of smart terminals amounted to HK$122.8 million, representing a substantial decline of 48.9% over the same period last year.

Others

The Company's management of other products mainly include communication products and security products. The Group's communication products business mainly targets the mobile phones, smart hardware and Internet of Things ("**IoT**") markets, and is subdivided into three major business segments based on product characteristics, namely memory products, radio frequency devices, and IoT communication modules. In the first half of 2020, the demand for small-capacity memory chips, radio frequency devices and communication modules of the benchmark customers from the Group's key industries recorded remarkable increase, driving the sales of communication products to achieve substantial growth and improved gross margin indicators. The business development of the security products department suffered from certain negative impacts due to the epidemic in the first half of the year and the landing and delivery of certain projects were delayed. However, we actively complemented the upstream and downstream industries to respond to the challenges brought about by changes in external environment, seized the changes in market demand, strengthened investment in the research and development of new solutions, and grasped the order demand from core customers. In the first half of the year, we sustained a leading advantage on product specifications in the industry, and our sales also achieved rapid growth.

Independent Distribution

Affected by the Chinese New Year and the epidemic, the independent distribution business basically stagnated during January and February in 2020. Relying on the sensitivity of independent distribution business, we seized the opportunity of chip shortage in individual product markets since March, and began to receive numerous orders. At the same time, we started to solve the materials shortage problems during this particular period for the top Electronic Manufacturing Services ("**EMS**") foundries in the industry and our business gradually resumed normal. Although the continuous downturn in the price of memory products as well as unstable market demand, we have achieved considerable sales in memory products. On the whole, the sales realised in the first half of 2020 have increased significantly compared to the same period in 2019, and the coverage of sales product category became more comprehensive. In the first half of 2020, the accumulative sales of independent distribution business amounted to HK$243.4 million, representing a substantial increase of 43.4% over the same period in 2019.

OUTLOOK

Authorised Distribution

Television Products

Along with the restart of economy in most overseas countries, the accumulated demand for replacement in the market has been effectively released, coupled with factors such as the upcoming peak season in the second half of the year, the TV market is currently undergoing rapid recovery. In addition, large-screen TVs are regarded as an important entrance to the living room economy, more consumers spend more time at home due to the epidemic, thus the frequency and time of accessing large-screen TVs have increased, which will push up the market's demand for high-performance TVs.

At present, TV products in overseas markets are experiencing the process of upgrading, the penetration rate of copyrighted content TV market such as Android TV, Roku TV, Fire TV and etc., have risen rapidly during the epidemic. The compatibility advantages of the TV chips and solutions authorised by the Group in overseas markets are demonstrated in a more comprehensive way, which will be beneficial to increase the overseas market share in the second half of the year. In the domestic market, TV manufacturers of various brands focus on 8K+AI functions in the promotion of high-end new products, which will be of help in acquiring a larger market share in the high-end TV market by the Group.

According to statistics from TrendForce, TV panel shipments in the second quarter have begun to recover, with the slight year-on-year increase of 0.8% to reach 64.79 million units. Panel factories will witness growth in both sales volume and price with fully restored production capacity in the third quarter. It is estimated that TV panel shipments in the third quarter are likely to reach 67.8 million units, representing a quarterly increase of 4.6% compared with the same period last year. Therefore, the management believe that the TV market will pick up in the second half of the year, which will help TV products to achieve rebound in sales.

Memory Products

The second half of the year is the traditional peak season for the consumer electronics market, and it is expected that the demand in export market will begin to recover in the third quarter. Coupled with the increased demand for server storage for online education and remote office caused by the epidemic as well as the booming amusement game market, it is generally believed that the price of memory chips will bottom out in the third quarter, and it is expected that demand and price will rebound simultaneously in the fourth quarter. In addition, the memory products has also strengthened customer development in the fields of security, IoT, automotive, server, 5G and other fields in the first half of the year, which is likely to bring about more orders in the second half of the year. Therefore, we expect the sales performance of the memory product to sustain growth in the second half of the year.

Optoelectronic Displays

In the second half of the year, production lines of domestic panel manufacturers are fully loaded and the smartphone market began to recover, laying a foundation with firm support for the sales performance of optoelectronic displays. However, affected by the continuous spread of the epidemic, the saturation of household market and demand in the commercial market are lower than expectation, it is expected that the shipments of liquid crystal display and laptop markets may tend to remain stable or even decline slightly in the fourth quarter. Moreover, the shortage and insufficient production capacity of 8-inch wafers of upstream chip manufacturers may also give rise to the shortages or price increase in chips of screen drivers and power supplies. Therefore, in the third quarter, the sales performance of optoelectronics displays is expected to sustain rapid growth in the first half of the year, while the demand and supply may still face uncertain factors and challenges in the fourth quarter. In this regard, we need to keep close attention to ensure the sales in second half of the year may achieve satisfactory performance.

Smart Terminals

With the popularisation of 4K and Artificial Intelligence ("**AI**"), overseas operators generally face the demand for product transformation and upgrading. With the gradual relief of the epidemic and the restart of the economy in overseas markets, the Group will focus on the European and Southeast Asian markets in the second half of the year. Information gathered from the market shows that new market demand in Philippines and Indonesia emerged recently, Indian market began to recover and customer orders from local factories in India started to resume.

Therefore, we will keep close attention to the new bids for operators in the Southeast Asian market, arrange product layout with focus on high-end IPTV and Hybrid STB, make good use of the integration advantages of the platform solution in Wifi/NB-IoT wireless product with the primary target of local mainstream operators. Related market promotion is being carried out currently and is expected to help improve the sales performance of the smart terminals in the second half of the year.

Others

With the advent of the 5G era, the cellular IoT will experience explosive development, and it is expected that the number of connected IoT devices will reach 22.5 billion by 2021. Driven by the rapid market growth, the layout advantages of telecommunication product department in memory products, radio frequency front-ends and IoT product lines will become more obvious. Leveraging the fast lane of 5G industry development, the communication product business will continue to cultivate in depth in the three directions of memory products, radio frequency devices and IoT devices, and it is expected to achieve better performance in the second half of the year. In the field of infrastructure, the construction of railways, highways, ports, and parking lots promoted by the "the Program of Building National Strength in Transportation" will involve the construction of security systems as supporting projects, which implies the basic foundation of security product remains stable. With obvious trend of consumption upgrading, as an important part of information intelligent consumption, security is expected to enjoy synergistic development in collaboration with the IoT, big data, cloud computing and AI in 2020. Furthermore, the integration of cloud products, the empowerment of ultra-high-definition and AI will enable security smart front-end to be equipped with more and more functions. Consumer security products with pan-security as an important development goal will face another climax of development along with the upcoming 5G era, which will be beneficial to the market promotion of security solutions. In addition, we will keep putting efforts to develop the product lines in other fields with the expectation to bring more revenue to the Group in the second half of the year.

Independent Distribution

Affected by the epidemic, the fluctuation in international market demand increased, leading to the frequent shortages of materials in foundries, as well as obvious increase in sluggish inventory, which is exactly the field that independent distribution is expertise to handle with. In the second half of this year, the Group will pay more attention to business opportunities in this market, to set up a successful collaboration with clients and solve problems for our customers. In addition, some foreign foundries may accelerate the transfer of production capacity to Southeast Asia due to the uncertainty in Sino-US relations. Hence, the Group will pay more attention to the opportunities in the Southeast Asian market as well. In the future, shipments of the EMS foundries will rise gradually with the recovery of the demand in the European and American markets.

For a long time, we are firmly optimistic to the long-term development trend of the semiconductor industry and the value of related industry chain. In the future, we are committed to continuously expand and strengthen the Group's existing authorised distribution business, combining with market changes and our own resource advantages to cover more new markets and new areas. In the independent distribution business, based on the accumulation and precipitation with our long-term partner Quiksol HK, we will actively explore the market and continuously maintain the leadership in the industry. We will also integrate with the new business type of e-commerce platforms for electronic components to form greater development synergies. In the distribution market of electronic components in overseas markets, Smart-Core DTDS Limited, a subsidiary of the Group, will rely on the Group's strong product lines and technical solutions to cover the distribution of electronic components to the Southeast Asian and Indian markets and expand to Japan and Taiwan. In the field of value-adding technology, we will integrate the Group's accumulation of IoT technology solutions and innovations of software service of Corelink (Xiamen) Technology Company Limited, a subsidiary of the Group, so as to create a new IoT PaaS service platform based on the "Hardware + Software + Cloud + Service" model and allow technological innovation and software services to better assist small and medium-sized enterprises to achieve product upgrades. We will continue to strengthen the Group's intellectual property construction, cultivate and build up the Group's core competitiveness. Furthermore, we will continue to look for suitable investment targets and entities, to grasp the counter-cyclical development opportunities in the market and trigger actions at the right time. In the future, we will continue to expand our business with a steady operation and a proactive attitude to bring better returns and long-term value to the shareholders of the Company (the "**Shareholders**") .

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2020, the Group's revenue amounted to HK$2,126.9 million, representing an increase of HK$36.8 million (1.8%) as compared with the corresponding period in 2019 (HK$2,090.1 million). The increase in revenue level was mainly caused by the combined effect of the decrease in the sales from authorised distribution and the increase in the sales from independent distribution.

Gross profit

Our gross profit for the six months ended 30 June 2020 decreased by HK$4.3 million (3.5%) to HK$120.3 million as compared with the corresponding period in 2019 (HK$124.6 million). Our gross profit margin decreased by 0.3% to 5.7% for the six months ended 30 June 2020 (six months ended 30 June 2019: 6.0%). The decrease in gross profit margin was principally the combined effect of decrease in gross profit margin from the sales of optoelectronic display products and decrease in rebate from our supplier.

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 2020, research and development expenses amounted to HK$11.2 million, decreased by 5.9% as compared with the six months ended 30 June 2019 (HK$11.9 million). The decrease was mainly due to reduction of the retirement benefit scheme contributions as a result of social securities relief granted by the local government authority to our PRC subsidiaries during the outbreak of COVID-19, which resulted in the decrease of staff cost.

Administrative, selling and distribution expenses

Administrative, selling and distribution expenses aggregated to HK$69.0 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK$68.5 million), which accounted for 3.2% of the revenue for the six months ended 30 June 2020 as compared with 3.3% over the corresponding period in 2019. There is no significant change in administrative, selling and distribution expenses as compared to the prior period.

Finance costs

The Group's finance costs for the six months ended 30 June 2020 amounted to HK$9.8 million (six months ended 30 June 2019: HK$13.9 million). The Group has entered into various financing arrangements with principal bankers. The finance costs decreased compared to the prior period which was mainly due to the decrease in average bank borrowing rate.

Profit for the period

For the six months ended 30 June 2020, the Group's profits amounted to HK$34.8 million, representing an increase of HK$2.9 million as compared to HK$31.9 million for the corresponding period in 2019, a rise of 9.1%. The net profit margin for the six months ended 30 June 2020 was approximately 1.6%, which approximated to the corresponding period in 2019 (2019: 1.5%).

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 2020 amounted to HK$29.8 million, maintaining at the same level as compared with the corresponding period in 2019.

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 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 expenses in connection with the Listing.

The Group has utilised approximately HK$133.1 million of the net proceeds as at 30 June 2020 according to the intentions set out in the prospectus of the Company dated 27 September 2016 (the "**Prospectus**"). The unutilised net proceeds have been placed as deposits with banks and are expected to be utilised as intended.

Use of Proceeds		**Net proceeds** *(in HK$ million)*	**Utilised as at 30 June 2020** *(in HK$ million)*	**Amount remaining** *(in HK$ million)*	**Expected timeline for utilising the remaining net proceeds** *(Notes 1 and 2)* *(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 organising marketing activities for the promotion of our e-commerce platform Smart Core Planet and our new products	41.2	(36.5)	4.7	Expected to be fully utilised on or before 31 December 2021
3.	Enhancing, further developing and maintain our e-commerce platform and improving our technology infrastructure	41.2	(6.3)	34.9	Expected to be fully utilised on or before 31 December 2022
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	(28.6)	33.1	Expected to be fully utilised on or before 31 December 2022
6.	General working capital	20.5	(20.5)	0.0	
		205.8	(133.1)	72.7	

Notes:

1. The expected timeline for utilising the remaining net proceeds is made based on the best estimation of the Company taking into account, among others, the prevailing and future market conditions and business developments and need, and therefore is subject to change.

2. The unutilised net proceeds from the Listing are expected to be used as intended except that the original timeline for utilising the remaining net proceeds as disclosed in the Prospectus has been delayed due to, among others things, the business environment being affected by the rapid change in technology in the past few years, the Sino-US trade tension since 2018, the social unrest in Hong Kong since June 2019 and the outbreak COVID-19 since January 2020. Additional time is therefore needed for the Group to (i) identify suitable resource, including personnel, suppliers and service providers, for the development of e-commerce platform and technology infrastructure, and to (ii) identify suitable targets for acquisition or investment that meet the Group's selection criteria.

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 2020, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK$360.4 million (31 December 2019: HK$347.4 million). As at 30 June 2020, the outstanding bank and other borrowings of the Group was HK$352.0 million (31 December 2019: HK$434.8 million). The Group's gearing ratio, based on the interest-bearing borrowings and total equity, decreased from 72.3% as at 31 December 2019 to 56.4% as at 30 June 2020 as a result of the decreased level of bank and other borrowings to finance our working capital needs.

As at 30 June 2020, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK$1,094.1 million and HK$668.1 million (31 December 2019: HK$955.8 million and HK$521.0 million) respectively.

As at 30 June 2020, the Group had current assets of HK$1,327.1 million (31 December 2019: HK$1,394.5 million) and current liabilities of HK$834.0 million (31 December 2019: HK$930.7 million). The current ratio was 1.6 times as at 30 June 2020 (31 December 2019: 1.5 times).

The Group's debtor's turnover period was 63 days for the six months ended 30 June 2020 as compared to 50 days for the corresponding period in 2019. The overall debtors' turnover period was within the credit period. The increase in debtors' turnover period is due to the derecognition of receivable balance of certain customers under factoring agreements as at 31 December 2018 which lower down the average receivable balances and turnover days in prior period.

The creditors' turnover period was 35 days for the six months ended 30 June 2020 as compared with 32 days for the corresponding period in 2019. Creditors' turnover period has been maintaining at a stable level.

The inventories' turnover period was 17 days for the six months ended 30 June 2020 as compared with 30 days for the corresponding period in 2019. The decrease in inventories' turnover period is mainly caused by improvement of inventory control management.

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$1.2 million during the six months ended 30 June 2020 (six months ended 30 June 2019: net foreign exchange loss of approximately HK$0.5 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 2020, the financial assets at fair value through profit or loss ("**FVTPL**") amounted to HK$127.9 million (31 December 2019: HK$127.8 million), trade receivable factored amounted to HK$308.8 million (31 December 2019: HK$308.9 million) and bank deposits amounted to HK$132.0 million (31 December 2019: HK$161.4 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 2020.

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 2020.

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 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2020, the Company bought back a total of 250,000 Shares on the Stock Exchange (the "**Share Repurchase**") and a total of 11,150,000 shares bought back were cancelled by the Company. Details of the purchases of shares are as follows:

Month of buy-back	Number of Shares bought back	Price per Share		Aggregate price (excluding commission fee and etc)
		Highest	Lowest	
		HK$	*HK$*	*HK$*
January	250,000	1.51	1.49	376,580

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 six months ended 30 June 2020.

EVENTS AFTER THE INTERIM PERIOD ENDED 30 JUNE 2020

Up to the date of this announcement, the Group has no significant subsequent event after 30 June 2020 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 2020. 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 2020.

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 2020 ("**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 2020 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, 25 August 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.