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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 2021

FINANCIAL HIGHLIGHTS

- The total revenue of the Group for the year ended 31 December 2021 amounted to HK\$10,389.3 million (2020: HK\$5,541.0 million), representing an increase of 87.5% as compared with the year ended 31 December 2020.
- The gross profit of the Group amounted to HK\$990.0 million for the year ended 31 December 2021 (2020: HK\$310.5 million), representing an increase of 218.8% as compared with the year ended 31 December 2020.
- The net profit attributable to the owners of the Company for the year ended 31 December 2021 amounted to HK\$214.1 million (2020: HK\$71.0 million), representing an increase of 201.5% as compared with the year ended 31 December 2020.
- Basic earnings per share for the year ended 31 December 2021 was HK43.82 cents (2020: HK14.42 cents).
- The Board resolved to recommend a final dividend of HK8 cents per share for the year ended 31 December 2021 (2020: HK4 cents per share).

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 2021 (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 2021

| | NOTES | Year ended 31 December | |
|---|-------|------------------------|------------------|
| | | 2021 HK\$'000 | 2020 HK\$'000 |
| Revenue | 3 | 10,389,312 | 5,541,009 |
| Cost of sales | | (9,399,359) | (5,230,549) |
| Gross profit | | 989,953 | 310,460 |
| Other income | | 11,374 | 11,308 |
| Other gains or losses, net | | 2,229 | 4,127 |
| Impairment losses recognised under expected credit loss model, net | | (18,911) | (11,582) |
| Research and development expenses | | (40,172) | (25,693) |
| Administrative expenses | | (113,604) | (71,295) |
| Selling and distribution expenses | | (300,642) | (97,203) |
| Share of result of an associate | | (4,837) | – |
| Finance costs | | (53,769) | (18,171) |
| Profit before tax | | 471,621 | 101,951 |
| Income tax expenses | 5 | (79,720) | (16,600) |
| Profit for the year | 6 | 391,901 | 85,351 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | 2,823 | 4,078 |
| Total comprehensive income for the year | | 394,724 | 89,429 |

| | | Year ended 31 December | |
|--|--------------|-------------------------------|-----------------|
| | | 2021 | 2020 |
| | <i>NOTES</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit for the year attributable to: | | | |
| Owners of the Company | | 214,061 | 71,002 |
| Non-controlling interests | | 177,840 | 14,349 |
| | | <u>391,901</u> | <u>85,351</u> |
| | | | |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | 216,885 | 75,075 |
| Non-controlling interests | | 177,839 | 14,354 |
| | | <u>394,724</u> | <u>89,429</u> |
| | | | |
| Earnings per share | 8 | | |
| Basic (HK cents) | | <u>43.82</u> | <u>14.42</u> |

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

At 31 December 2021

| | | As at 31 December 2021 | As at 31 December 2020 |
|--|-------|------------------------------|------------------------------|
| | NOTES | HK\$'000 | HK\$'000 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 8,408 | 4,298 |
| Right-of-use assets | | 26,689 | 26,197 |
| Goodwill | | 9,735 | 9,735 |
| Intangible asset | | 4,384 | 6,776 |
| Club debentures | | 5,433 | – |
| Investment in an associate | | 33,293 | – |
| Deposits, prepayments and other receivables | | 2,543 | 3,634 |
| Deferred tax asset | | 9,011 | 5,704 |
| Financial assets at fair value through profit or loss | | <u>152,149</u> | <u>130,147</u> |
| | | <u>251,645</u> | <u>186,491</u> |
| CURRENT ASSETS | | | |
| Inventories | | 606,026 | 416,285 |
| Trade receivables | 9 | 1,984,625 | 1,102,296 |
| Deposits, prepayments and other receivables | | 84,954 | 73,867 |
| Pledged bank deposits | | 420,830 | 178,191 |
| Bank balances and cash | | 290,931 | 238,557 |
| | | <u>3,387,366</u> | <u>2,009,196</u> |
| CURRENT LIABILITIES | | | |
| Trade payables | 10 | 536,103 | 590,732 |
| Other payables and accrued charges | | 272,945 | 90,390 |
| Lease liabilities | | 13,705 | 9,704 |
| Contract liabilities | | 33,895 | 51,665 |
| Amount due to a non-controlling shareholder of a subsidiary | | 4,363 | – |
| Tax liabilities | | 81,829 | 11,829 |
| Bank borrowings | 11 | 1,628,565 | 727,065 |
| | | <u>2,571,405</u> | <u>1,481,385</u> |
| NET CURRENT ASSETS | | <u>815,961</u> | <u>527,811</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>1,067,606</u> | <u>714,302</u> |

| | As at 31 December 2021 | As at 31 December 2020 |
|--|---------------------------------------|---------------------------------------|
| <i>NOTES</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| NON-CURRENT LIABILITIES | | |
| Deferred tax liability | 724 | 1,119 |
| Lease liabilities | 14,440 | 17,840 |
| Bank borrowings | 9,567 | – |
| | <u>24,731</u> | <u>18,959</u> |
| NET ASSETS | <u>1,042,875</u> | <u>695,343</u> |
| CAPITAL AND RESERVES | | |
| Share capital | 38 | 38 |
| Reserves | 805,949 | 630,640 |
| Equity attributable to owners of the Company | 805,987 | 630,678 |
| Non-controlling interests | 236,888 | 64,665 |
| | <u>1,042,875</u> | <u>695,343</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Act, (2021 Revision) 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 addresses of registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is an investment holding company. The Company’s subsidiaries are principally engaged in the trading of electronic 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\$**”). For the convenience of the financial statements users, the consolidated financial statements are presented in HK\$, as the Company’s shares are listed on The Stock Exchange of Hong Kong Limited.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

| | |
|---|--|
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2 |

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the “**Committee**”) of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

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

2.1 *Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2*

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures (“**HKFRS 7**”).

As at 1 January 2021, the Group has several financial liabilities, the interests of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform. The following table shows the total amounts of these outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

| | London Interbank Offered Rate <i>HK\$'000</i> |
|------------------------------|---|
| Financial liabilities | |
| Bank borrowings | <u>524,945</u> |

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured at amortised cost. Additional disclosures as required by HKFRS 7 will be set out in the Group’s consolidated financial statements for the year ended 31 December 2021.

2.2 *Impacts on application of the agenda decision of the Committee – Cost necessary to sell inventories (HKAS 2 Inventories)*

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group’s accounting policy prior to the Committee’s agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee’s agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories. The new accounting policy has been applied retrospectively.

The application of the Committee’s agenda decision has had no material impact on the Group’s financial positions and performance.

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|--------------------------------------|-------------------------|-------------------------|
| Types of goods | | |
| Sale of electronic components | <u>10,389,312</u> | <u>5,541,009</u> |
| Timing of revenue recognition | | |
| A point in time | <u>10,389,312</u> | <u>5,541,009</u> |
| Sales channel/product lines | | |
| <i>Authorised distribution</i> | | |
| Television products | 2,065,553 | 2,049,321 |
| Optoelectronic displays | 1,859,576 | 947,287 |
| Video processing | 1,084,936 | 342,890 |
| Smart terminals | 730,272 | 396,171 |
| Communication products | 643,604 | 268,775 |
| Memory products | 556,628 | 492,208 |
| Others (<i>note</i>) | <u>587,533</u> | <u>437,601</u> |
| | <u>7,528,102</u> | <u>4,934,253</u> |
| <i>Independent distribution</i> | <u>2,861,210</u> | <u>606,756</u> |
| | <u>10,389,312</u> | <u>5,541,009</u> |

Note: Others mainly comprising the sales of automotive electronics and other products.

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

(ii) Performance obligations for contracts with customers

Sale of electronic components 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 31 December 2021 and 2020, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All sale of electronic components are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

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 2021

| | Authorised distribution <i>HK\$'000</i> | Independent distribution <i>HK\$'000</i> <i>(Note)</i> | Segment total <i>HK\$'000</i> | Elimination <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|---|---|-------------------------------------|--------------------------------|---------------------------------|
| SEGMENT REVENUE | | | | | |
| Revenue from external customers | 7,528,102 | 2,861,210 | 10,389,312 | - | 10,389,312 |
| Inter-segment sales* | 37,229 | 11,263 | 48,492 | (48,492) | - |
| | <u>7,565,331</u> | <u>2,872,473</u> | <u>10,437,804</u> | <u>(48,492)</u> | <u>10,389,312</u> |
| Segment profit | <u>143,486</u> | <u>260,826</u> | <u>404,312</u> | <u>-</u> | <u>404,312</u> |
| * Inter-segment sales are charged at cost | | | | | |
| Less: Unallocated expense | | | | | (8,726) |
| Fair value change on financial assets at FVTPL | | | | | (188) |
| Gain on bargain purchase from business combination | | | | | 1,340 |
| Share of result of an associate | | | | | <u>(4,837)</u> |
| Profit for the year | | | | | <u><u>391,901</u></u> |

For the year ended 31 December 2020

| | Authorised distribution <i>HK\$'000</i> | Independent distribution <i>HK\$'000</i> <i>(Note)</i> | Segment total <i>HK\$'000</i> | Elimination <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---------------------------------|---|---|-------------------------------------|--------------------------------|---------------------------------|
| SEGMENT REVENUE | | | | | |
| Revenue from external customers | 4,934,253 | 606,756 | 5,541,009 | – | 5,541,009 |
| Inter-segment sales* | <u>119,093</u> | <u>113,581</u> | <u>232,674</u> | <u>(232,674)</u> | <u>–</u> |
| | <u>5,053,346</u> | <u>720,337</u> | <u>5,773,683</u> | <u>(232,674)</u> | <u>5,541,009</u> |
| Segment profit | <u>65,637</u> | <u>22,379</u> | <u>88,016</u> | <u>–</u> | <u>88,016</u> |

* Inter-segment sales are charged at cost

| | | | | | |
|---|--|--|--|--|---------------|
| Less: Unallocated expenses | | | | | (7,288) |
| Fair value change on financial assets at FVTPL | | | | | <u>4,623</u> |
| Profit for the year | | | | | <u>85,351</u> |

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. Segment profit represents the profit earned by each segment without allocation of unallocated expenses, gain on bargain purchase from business combination, share of result of an associate 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.

Geographical information

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

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

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|-----------|-------------------------|-------------------------|
| Hong Kong | 8,336,444 | 5,211,342 |
| The PRC | 1,807,406 | 329,667 |
| Singapore | 240,101 | – |
| Others | 5,361 | – |
| | <u>10,389,312</u> | <u>5,541,009</u> |

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:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|------------|-------------------------|-------------------------|
| Customer 1 | 1,142,950 | 951,153 |
| Customer 2 | 1,086,726 | 1,037,119 |
| | <u>1,086,726</u> | <u>1,037,119</u> |

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 2021 and 2020.

5. INCOME TAX EXPENSES

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Current tax: | | |
| Hong Kong Profits Tax | 68,511 | 15,264 |
| PRC Enterprise Income Tax (“PRC EIT”) | 8,763 | 3,642 |
| Singapore Corporate Tax (“CIT”) | 6,148 | – |
| | <u>83,422</u> | <u>18,906</u> |
| Deferred tax | (3,702) | (2,306) |
| | <u>79,720</u> | <u>16,600</u> |

6. PROFIT FOR THE YEAR

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit for the year has been arrived at after charging: | | |
| Directors' emoluments | 9,591 | 6,912 |
| Staff costs | | |
| Salaries and other allowances | 111,122 | 73,133 |
| Discretionary bonus | 148,776 | 28,598 |
| Retirement benefit scheme contributions | 19,752 | 6,542 |
| Total staff costs | <u>289,241</u> | <u>115,185</u> |
| Allowance for inventories recognised (reversed) (included in cost of sales) | 12,360 | (1,493) |
| Amortisation of intangible asset (included in selling and distribution expenses) | 2,392 | 2,392 |
| Auditor's remuneration | 2,100 | 2,050 |
| Cost of inventories recognised as an expense | 9,386,999 | 5,232,042 |
| Depreciation of property, plant and equipment | 2,207 | 1,610 |
| Depreciation of right-of-use assets | <u>12,689</u> | <u>8,973</u> |

7. DIVIDENDS

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Dividends for ordinary shareholders of the Company recognised as distributions during the year | | |
| 2021 – Interim – HK4 cents (2020: 2020 interim dividend HK2 cents) per share | 19,599 | 10,059 |
| 2020 – Final – HK4 cents (2020: 2019 final dividend HK2 cents) per share | 19,547 | 9,882 |
| | <u>39,146</u> | <u>19,941</u> |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2021 of HK8 cents (2020: final dividend in respect of the year ended 31 December 2020 of HK4 cents) per ordinary share, in an aggregate amount of approximately HK\$39,094,000 (2020: HK\$19,547,000), 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:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Earnings | | |
| Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share | <u>214,061</u> | <u>71,002</u> |
| | 2021 | 2020 |
| Number of ordinary shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | <u>488,524,783</u> | <u>492,292,156</u> |

For the year ended 31 December 2021 and 2020, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account of 250,000 (31 December 2020: 250,000) ordinary shares purchased by the Trustee 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 both years as there was no potential ordinary shares in issue for both years.

9. TRADE RECEIVABLES

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|-----------------------------------|-------------------------|-------------------------|
| Trade receivables | 2,038,139 | 1,136,690 |
| Less: allowance for credit losses | <u>(53,514)</u> | <u>(34,394)</u> |
| | <u>1,984,625</u> | <u>1,102,296</u> |

As at 1 January 2020, trade receivables from contracts with customers amounted to HK\$792,032,000.

As at 31 December 2021, total bills received amounting to HK\$105,178,000 (31 December 2020: HK\$4,756,000) with a maturity period ranging from 30 to 180 days (2020: 30 to 180 days) are held by the Group for future settlement of trade receivables. Included in total bills are bills received by the Group amounting HK\$105,178,000 (2020: HK\$3,185,000) were transferred to banks by discounting on a full resource basis. As the Group has not transferred the significant risks and rewards relating to those bills. It continues to recognise trade receivables full carrying amounts at the end of the reporting period and recognise the cash received on the transfer as secured borrowings. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

The Group allows credit period of 0 days to 120 days (2020: 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:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---------------|--------------------------------|-------------------------|
| 0–60 days | 1,412,829 | 871,138 |
| 61–120 days | 479,411 | 170,033 |
| Over 120 days | 92,385 | 61,125 |
| | <u>1,984,625</u> | <u>1,102,296</u> |

10. TRADE PAYABLES

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Trade payables | <u>536,103</u> | <u>590,732</u> |

The credit period for trade payables ranging from 0 to 60 days (2020: 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:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|--------------|--------------------------------|-------------------------|
| 0–30 days | 448,331 | 492,322 |
| 31–60 days | 56,621 | 71,715 |
| 61–90 days | 27,712 | 25,906 |
| Over 90 days | 3,439 | 789 |
| | <u>536,103</u> | <u>590,732</u> |

As at 31 December 2021, included in the trade payables is HK\$58,471,000 (2020: Nil), in which the Group issued bills to relevant creditors for settlement and remained outstanding at the end of the reporting period.

11. BANK BORROWINGS

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Import and export loans | 747,803 | 139,964 |
| Other bank borrowings (<i>Note</i>) | 890,329 | 587,101 |
| | <u>1,638,132</u> | <u>727,065</u> |
| Carrying amounts of the above borrowings are repayable* | | |
| – within one year | 1,628,565 | 727,065 |
| – within a period of more than one year but not exceeding two years | 5,858 | – |
| – within a period of more than two years but not exceeding five years | 3,709 | – |
| | <u>1,638,132</u> | <u>727,065</u> |
| Carrying amounts of borrowings that contain a repayable on demand clause (shown under current liabilities) but repayable: | | |
| – within one year | 1,625,127 | 727,065 |
| | <u>1,625,127</u> | <u>727,065</u> |
| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
| Analysed as: | | |
| Secured | 1,631,917 | 720,294 |
| Unsecured | 6,215 | 6,771 |
| | <u>1,638,132</u> | <u>727,065</u> |

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Note: During the year ended 31 December 2021, the Group factored trade receivables to banks with recourse in an aggregated amount of HK\$854,257,000 (31 December 2020: HK\$580,328,000) and accordingly the cash received on the transfer was recognised as borrowings and included in bank borrowings. The Group also discounted bills arising from future settlement of trade receivables with recourse in aggregated amount of HK\$105,178,000 (2020: HK\$3,185,000) for short-term financing. At 31 December 2021, the associated borrowings amounted to approximately HK\$115,430,000 (2020: HK\$19,775,000). The related cash flows of these borrowings are presented as financing cash flows in the consolidated statement of cash flows.

FINAL DIVIDEND

The Board resolved to recommend a final dividend of HK8 cents per share for the year ended 31 December 2021 to the shareholders of the Company (the “**Shareholders**”) whose names appear on the register of members of the Company on Tuesday, 7 June 2022. Subject to the approval by the Shareholders at the forthcoming Annual General Meeting (as defined below) to be held on Wednesday, 25 May 2022, the proposed final dividend is expected to be paid on or about Friday, 24 June 2022.

MANAGEMENT’S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2021, the coronavirus disease (COVID-19) epidemic continued to spread around the world, resulting in profound changes to the way people live and work around the world. More and more individuals, enterprises, governments and educators were moving towards digital operations, and there was a significant increase in the orders for new networking devices as the moderate monetary policy stimulated consumer demand, which have strongly driven the strong growth in sales of semiconductor chips in 2021. The current strong growth in market demand, coupled with the tighter supply chain, has led to an increase in the average selling price of electronic components, while the market size of the semiconductor market, which comprised of chips and OSD (Optoelectronics, Sensors, Discretes; collectively referred to as “**OSD**”) devices, has grown significantly. As stated in the report issued by IC Insight, a well-known consulting agency of semiconductor industry in January 2022, the global semiconductor production in 2021 increased by 25% year-on-year to US\$614 billion, and in particular for the semiconductor chips industry, the global market size increased by 26% to US\$509.8 billion in 2021.

Benefiting from the proactive anti-epidemic measures aiming at “zero-case on a dynamic basis”, Mainland China has achieved remarkable success in the battle against the epidemic. Social and economic development remained stable as a whole, while the whole industry chain of the manufacturing industry maintained strong vitality. Besides, the increasing global manufacturing orders placed to China have driven a significant growth in the demand for IC chips. Based on the data released by the customs, the number of ICs imported for semiconductor chips in 2021 reached 635,481 million units, representing an increase of 16.9% as compared to the corresponding period in 2020, while the import amount reached RMB2,793.48 billion, representing a year-on-year increase of 25.6%. Leveraging on the continued strong market demand and the rising prices, the Group’s independent distribution business has also recorded a rapid growth while maintaining a substantial growth in its authorised distribution business. Furthermore, the Group achieved accumulated sales of HK\$10,389.3 million in 2021, representing an increase of 87.5% as compared to the corresponding period in 2020, and recorded a total gross profit of HK\$990.0 million, representing a year-on-year increase of 218.8%.

For the specific business segments, the authorized distribution business segment maintained steady development in TV and memory fields, with significant growth in the fields of optoelectronic displays, video processing, smart devices, communication products and automotive electronics. The sales results of the Independent distribution business segment also achieved remarkable results in 2021, with significant growth in both revenue and gross profit from sales. The following is a business review of the main segments of the Group.

Authorized Distribution

Television Products

2021 marked a fluctuating year for the TV market. According to the market forecast report issued by TrendForce in January 2022, the global TV shipments decreased by 3.2% to only 210 million units in 2021, hitting the lowest level in the past six years. Impacted by interweaved factors including the spread of global epidemic, prolonged tension on supply chain, rising material cost and production cost, coupled with stimulation of sporting events, the TV market saw an extraordinary phenomenon that greater shipments was recorded in the first half of 2021 than that in the second half of 2021. The overall demand for the Group's TV IC remained strong in the first half of 2021, during which the sales performance of TV products grew rapidly; however, the selling price of TV in complete set was inflated resulting from the shortages and price increase in certain materials, the skyrocketing ocean freight price, the historic high price of the TV LCD panels and other adverse factors, which in turn restrained the market consumption demand. From July onwards, with the panel price peaked and fell, the market was in wait-and-see sentiment again, and most downstream manufacturers were in inventory clearance in the third quarter, the market therefore experienced slump in order demand. However, with the decline in stock level in the distribution channels, the panel price has rebounded and stabilized in the fourth quarter, besides, the arrival of the traditional sales peak season at the end of the year facilitated the recovery of orders in the fourth quarter. On that basis, this business unit achieved growth in a declining market in 2021, with the cumulative sales reaching HK\$2,065.6 million, representing a year-on-year increase of 0.8%.

Optoelectronic Displays

The Group's optoelectronic display business mainly focuses on the sales of related chips used in display, touch screen, screen driver, CMOS image sensor, projection, power supply and smart commercial display. In 2021, the market demand for TV LCD panels began at high levels, and then declined, in other words, there was a strong demand in the first half of the year, but the downstream complete set manufacturers' demand for large screen TV panels has dropped drastically in the second half of the year, which was affected by various adverse factors, such as the gradual relaxation in social distancing, the over-consumption of demand, the increase in production capacity, the ongoing high

price of panels and logistics costs. Nonetheless, along with the milestone progress in epidemic, the market demand gradually shifted from general consumer products to commercial products, including increasing demand for panels in display and notebook sectors, which contributed to the rapid growth in sales of Timer Control Register (Tcon), Driver, Power and other chips used in LCD panels of this business unit. In 2021, the Scaler chips unit also secured additional blue-chip customers who contributed to substantial growth in the performance of this product line. CMOS image sensor and TDDI chips grew in line with the development of handset shipments, recording rapid growth in the first half of 2021 and slowdown in the second half of 2021 as the Group strengthened risk management for this business unit. Given the under-capacity of DLP of upstream core suppliers in the relevant business, the performance decreased slightly when compare to the corresponding period last year. Owing to the integration of upstream resources and changes in the market, the optoelectronic display business unit integrated the smart commercial display business in the fourth quarter and achieved remarkable results. In terms of overall achievement of this business unit, it grew rapidly in 2021 and continuously recorded high growth in the past three years, realizing cumulative sales of HK\$1,859.6 million, a significant increase of 96.3% compared to the corresponding period in 2020.

Video Processing

The video processing business unit involves many areas, mainly including video surveillance, access control management, intruder alarm, building talkback and other segments. According to relevant statistics, the size of global security monitoring market has increased from US\$236.7 billion in 2016 to approximately US\$338.0 billion in 2021. In the first half of 2021, the performance of the video processing business unit began to see an explosive growth, with the sales for the first half of the year exceeding that for the whole year of 2020. In the third quarter, the business continued to maintain rapid growth before slowed down in the fourth quarter. In addition to the improved performance, the quality of customer groups in this business unit has also been greatly enhanced. We have carried out in-depth interactions with top blue-chip customers in respect of business and technology, and jointly expanded the market with them with a focus on some specialized market segments. In overseas markets, we have also attained a satisfactory progress with the business of downstream partners starting to penetrate into North America and Southeast Asia and successfully securing a large number of new orders. Given the above, in 2021, this business unit achieved cumulative sales of HK\$1,084.9 million, representing a significant increase of 216.4% compared with the corresponding period in 2020, and has achieved rapid growth for five consecutive years.

Smart Terminals

According to the statistics released by the Ministry of Industry and Information Technology, as of the end of 2021, the total number of users of Internet protocol television (IPTV) in China increased by 10.6% year on year to 349 million, and the growth rate was higher than that of 7.2% in 2020. In overseas market, the resurgence of pandemic throughout the year brought the “stay-at-home economy”, leading to a significant increase in the utilization of big-screen TVs in households. Meanwhile, driven by a number of major international sports events in 2021, the end-customers’ demands for set-top box products increased dramatically. Benefitting from the stable development of the domestic IPTV market and the increase in orders for smart set-top boxes from Europe, this business unit achieved cumulative sales of HK\$730.3 million in 2021, representing a significant increase of 84.3% compared with the corresponding period in 2020.

Communication Products

Internet of Things (IoT) is a huge industry chain system in the communication sector. In general, it can be divided into perception layer, network layer and application layer. The transmission of the data identified and collected in the perception layer to the application layer requires a large number of IoT communication modules of different types. Currently, the IoT communication modules are mainly applied in vertical industries in the commercial field, such as intelligent meter, intelligent door lock and positioning terminal for water, electricity, gas and other industries. The pandemic did not interrupt the rapid growth of cellular IoT module market. Instead, the demand for the networked and intelligent end products continued to increase, which benefitted the cellular IoT module shipments. In 2021, Chinese manufacturers were the top five contributors of the cellular IoT module shipments in the global market. Through further expansion of major blue-chip customer base in the industry, this business unit has reaped the benefits brought by the industry development and achieved significant growth in such product lines as multi-chip packaging (MCP) memory chips, radio frequency power amplifier (PA) chips, communication modules and narrow-band Internet of Things (NB-IoT). In the meantime, the in-depth cooperation with numerous blue-chip customers in the industry has driven the sharp rise in the sales and profits of this business unit for two consecutive years with cumulative sales of HK\$643.6 million in 2021, representing a significant increase of 139.5% compared to the corresponding period in 2020.

Memory Products

Memory chip is an important branch of the semiconductor industry, accounting for approximately a third of the global semiconductor market. According to the historical data, the memory chip industry has always seen fluctuating prices, but its overall performance within the industry cycle was better than the average of the electronic components market. According to IC Insight, the scale of memory chip market is expected to grow by 22% year-on-year to US\$155.2 billion in 2021. Although the scale was growing throughout the year, price volatility was evident during the year. The price for memory chip gradually fell from July onwards after an increase in the second quarter, and continued to fall throughout the second half of the year. Since there was a greater risk of price declines in price fluctuations due to the rapid changes in market supply and demand, the business unit was restructuring and consolidating its resources during the year, therefore we promoted our business in a more conservative way. As a result, in 2021, the business unit maintained a slight growth in revenue and achieved cumulative sales of HK\$556.6 million, an increase of 13.1% compared to the corresponding period in 2020.

Automotive Electronics

According to the Statistics, the number of vehicles nationwide reached 302 million by the end of 2021, with the increase in new energy vehicles by 59.25% year-on-year to 7.84 million. According to an analysis report released by Newsijie Industry Centre (新思界產業研究中心), the configuration of automotive DVRs in low-end vehicles has become a new selling point, and the penetration rate of automotive DVRs in the factory-installed products market is expected to increase from 33% in 2020 to around 71% in 2025. In addition to the rapid growth in the penetration rate of the factory-installed products market, the huge aftermarket installed products market in China also provides strong support for the market demand for automotive DVRs of this business unit. According to QYResearch, a market research agency, China is the world's largest manufacturing base for automotive DVRs, accounting for over 42% of the global market in terms of shipments. Meanwhile, China is also the world's largest consumer market for automotive DVRs, accounting for approximately 30% of the global market. Given the size of the intelligent automotive DVRs market in the PRC amounted to approximately RMB15.83 billion as of December 2021, the sales of DVR SoC chips in the business unit has benefited therefrom, with a significant growth in shipments in 2021, achieving annual sales of HK\$254.3 million, a significant increase of 113.3% compared to the corresponding period in 2020.

Independent Distribution

The supply chain of semiconductor chips remained tight in 2021 due to the COVID-19 epidemic and other factors, which led to a severe imbalance between supply and demand in the market and thus shortages and price increases throughout the year, and the independent distribution business was booming as a result. Since the first half of the year, the Group's independent distribution business has been experiencing explosive growth and the robust momentum continued throughout the year. Moreover, according to the Statistics, the gross profit generated from the spot orders of independent distribution business has improved significantly over the traditional authorized distribution business. The independent distribution business achieved cumulative sales of HK\$2,861.2 million in 2021, a significant increase of 371.6% compared to the corresponding period in 2020.

OUTLOOK

In the World Economic Situation and Prospects 2022 released by the United Nations in January this year, it stated that due to the continuation of the COVID-19 pandemic, continuous challenges in the labor market, unresolved supply chain problems and the pressure of increasing inflation, the global economic development is still facing greater uncertainties, and global economic growth is expected to decline to 4.0% and 3.5% in 2022 and 2023, respectively. In the latest Global Economic Outlook released by the World Bank in January, it also lowered its forecast for global economic growth in 2022 and 2023 to 4.1% and 3.2%, respectively. The overall global economy is in a weak recovery stage in the medium term, and the recovery journey is expected to be long, uneven and full of uncertainty.

In contrast, the development prospects of the semiconductor chip industry are relatively optimistic and positive. We have collected forecast data for the global market in 2022 released by authoritative market research agencies including IC Insight, Gartner, WSTS, Omdia, and SIA. The average growth rate is forecasted to reach about 8.0%, and the authoritative market research agency IC Insight even proposes a double-digit growth rate of 11%. Research agencies generally expect that the global semiconductor output value will probably exceed US\$600 billion in 2022, and they believe that in the next 4 years, the semiconductor chip industry will maintain a sustained single-digit growth and exceed one trillion US dollars in 2030. Therefore, the future development prospects of the semiconductor industry are worth expecting. Given the correlation and leverage effect between the semiconductor industry and the development of the national economy, the continuous growth of the semiconductor industry will contribute to the recovery of the global economy.

Statistics show that the market size of semiconductor chips made in China has grown rapidly from US\$13 billion in 2016 to US\$177.2 billion in 2021, and the global market share also increased to 32%. However, according to IC Insight, excluding the sales data of non-Chinese chip companies that set up factories in Mainland China, the market share of Chinese local brand semiconductor chip companies only accounted for about 6%, which means that the development of China's semiconductor chip industry still has a long way to go. Data from the China Semiconductor Industry Association IC Design Branch suggests that the number of chip design companies in China has increased from 681 in 2014 to 2,810 in 2021, representing an increase of more than four times in seven years. Moreover, the capital market in Mainland China made active investments in the semiconductor industry in 2021. During the year, there were more than 570 investment and financing events in the semiconductor industry, with a total investment of more than RMB110 billion, which is also supported by the data from the securities regulatory authorities. In 2021, a total of 19 semiconductor-related companies in Mainland China successfully entered capital market. As of the end of December 2021, 52 semiconductor companies are lining up for IPOs. It is expected that the number of chip-related listed companies in A-share market in 2022 will increase significantly compared with that in 2021, and by then the number of listed companies engaging in chip-related businesses in the A-share market will probably exceed 500, making it an important industry sector in the securities market.

Looking forward to 2022, as the negative impact of the COVID-19 pandemic on the global economy is expected to be reduced, and the semiconductor production capacity newly established has been put into operation successively over the past two years, the supply constraint that has plagued the semiconductor industry chain for more than a year will be alleviated. There will be a window for another round of chip design and innovation due to the increasing demands from emerging application fields such as Artificial Intelligence & Internet of Things (AIoT), 5G communication application, new energy, electric vehicles, autonomous driving and industrial interconnection. We will pay close attention to the local semiconductor chip industry in Mainland China about whether it will be able to hit new heights by seizing such new development opportunity.

As a leading all-round distributor of electronic components in China, the Group achieved prominent performance in business diversification and development in 2021, representing by the rapid growth both in the Group's pillar business with sales exceeding HK\$1 billion and newly commenced business with sales exceeding HK\$100 million. The business of the Group's branches also achieved substantial growth with their sales contributing more than 30% of the Group's total sales, which is critical to improving the balance of the Group's business and enhancing its resilience to risk, as well as laying a solid foundation for the overall development of the Group's business across the Asia-Pacific region in the future.

Considering the expectation of steady growth in the global economy and semiconductor industry in the future, we believe that the Group's business will maintain steady growth in 2022. Specifically, for each business line of the Group, the outlook is as follows:

Authorized Distribution

Television Products

According to a forecast report by market research firm TrendForce, panel prices are expected to relatively stabilise in 2022 after a sharp correction in TV panel prices in the second half of 2021. The global TV shipments are expected to grow by 3.4% to reach 217 million units in 2022, as the market demand for some small-sized TVs that was previously deferred will be released as a result of drop in the prices for small-sized TV panels, which had been high. Market feedback indicates that major international brands are focusing on the promotion of new mid-to-large size products, and thus mid-to-high end OLED TVs will continue to grow at a faster pace, and miniLED TVs will see rapid growth. As a result, the market share of mid-to-high end TVs is expected to increase, which will be conducive to boosting the shipment of mid-to-high end TV chips from this business unit.

Statistics show that the penetration rate of colour TV ownership in China has reached 121.8 units per 100 households in 2021, suggesting a highly saturated market. However, industry analysts believe that there are many outmoded products among such huge stock that are obsolescent and in need for upgrade and replacement. According to market analysis, the proportion of large-screen colour TVs in size of above 70 inches is expected to increase by another 5 percentage points in 2022, with sales increasing by around 30%. The large-screen colour TV market in China is likely to see a market rebound in 2022 due to price drop and a trend of replacements with new large-size products. The TV SoC chips shipped by this business unit are expected to benefit from its evident advantages in mid-to-high end products and overseas markets.

Optoelectronic Displays

In 2022, the shortage of wafers and packaging and testing capacity related to display will be eased but won't disappear, while market demand for screen modules for businesses of displays and notebook will remain strong, coupled with the stable demand of blue-chip customers, the robust production and sales of chips will continue until the middle of this year.

As the strategic direction of smart commercial display is becoming clear as well as the markets in education, conference commercial display and projection keep growing, smart commercial display will serve as an important contribution to the results of the optoelectronic displays sector in 2022. A mass of chips and solutions for this sector can be easily applied to the complete machine products related to “Metaverse”. Our upstream core OEM partners have planned to establish a “metaverse business department” by integrating their advantages in connection, transmission, 5G, edge computing, multimedia etc., to equip wearable devices with more processors, higher computing power, less power consumption, shorter latency and supporting software and hardware technology solutions.

The business of CMOS image sensors and screen driver chips for cell phones is expected to maintain stable as the further implementation of the strategy of bundled shipment with cell phone terminal and the Group’s requirements in risk management. For the new business directions of industrial control Touch and BLDC, we expect an opportunity to achieve significant business breakthroughs with the accumulation of market customer groups and the support of sales strategies.

Generally speaking, we are optimistic about the performance of the optoelectronic display business unit in 2022.

Video Processing

According to data released by ASKCI (中商情報網), the market size of the security industry in Mainland China had grown from RMB601.6 billion in 2017 to RMB945.2 billion in 2021, and there is a good chance of exceeding RMB1 trillion in 2022, making it one of the few booming industries under the downward economic pressure. According to the 2021 Global Intelligent Video Surveillance Market Information Service (《全球智能視頻監控市場信息服務》) released by Omdia, the size of the global intelligent video surveillance and related infrastructure market reached US\$24.2 billion in 2021, and will grow to US\$31.9 billion by 2025, with a CAGR of 7.1%. Omdia believes that unsatisfied demand for chips in the security industry will not be mitigated until the middle of 2022 due to the impacts caused by geopolitics and COVID-19 epidemic.

The market feedback from blue-chip customers of the industry suggests that the following three years will be a development window for the security industry, and opportunities mostly lie in the organic combination of video and intelligent IoT and its application in numerous industry segments. For example, in the field of water conservancy, video can be used to identify the water mark and thus to make diversion in time according to water flows. Also, video can be used to detect flaws in textile industry, or to identify whether workers at the construction sites wearing safety helmets in construction industry. As customers are generally optimistic about the demand in overseas markets, the overseas markets size is expected to maintain high growth. Therefore, with the significantly increased video processing application scenarios brought by the development of intelligentization and digitalization, the security video processing will generate numerous new business opportunities in addition to the traditional security application fields in 2022, from which this business unit is expected to benefit.

Smart Terminals

With the diversified development of business, product functions are becoming more and more complex, and the integration of programs is getting higher and higher. Set-top boxes have gradually become the dominant players in home entertainment and the speed of product replacement is also accelerating. Smart set-top boxes will have the potential to become a smart device hub that can integrate TVs, networks and various applications, to provide families with rich and comprehensive information services such as communication, entertainment, home appliance control and security. With the further development and popularization of the IoT, set-top boxes have also shifted from simple TV signal playback devices to one of the important entrances to smart homes. Therefore, it is expected that set-top box will play an increasingly important role in global digitization progress in the next 10 years or more. Benefiting from new opportunities brought by technological upgrades and growth in emerging markets around the world, it is expected that this business unit will maintain growth in 2022.

Communication Products

According to a research report released by CICC, with the landing of 5G applications and the development of AI technology, AIoT has entered the fast lane of development. At present, Mainland China has basically realized the full coverage of 5G networks. In the future, cellular communication will apply LPWAN as a substitute for 2G/3G technology in low-rate scenarios, and apply 4G/5G technology in high-rate scenarios. Communication modules will serve as main communication infrastructure for terminal device networking, ushering in new development opportunities. It is expected that the shipments of cellular communication modules will reach 460 million in 2023, with a market value of US\$6.3 billion.

In the face of the rapid growth of the 5G mobile phone and communication module market, this business unit accurately captures the market dividend brought about by the growth of 5G through the layout of MCP memory chips, radio frequency PA chips, and the introduction of more new product lines and new customers. New product lines such as the new communication modules, NB-IoT and passive devices will be marketed with the existing customer resources, and it is expected that the IoT smart device business will continue to maintain rapid growth. Looking forward to 2022, this business unit will focus on the application of radio frequency devices, memory chips, SoC chips and communication modules, and deeply engage in the rapidly growing market of cellular IoT communication modules.

Memory Products

According to an analyst report released by IC Insights, the global market scale of memory chips is expected to grow by 22% to US\$155.2 billion in 2021, and this market scale will continue to grow in 2022, having the potential to exceed US\$200 billion by 2023.

As for market supply and demand, a research by TrendForce shows that, the demand growth rate of DRAM bits is expected to be 17.1% while the supply growth rate is expected to be 18.6% in 2022. Therefore, the price of DRAM chips may slip due to the oversupply, and the total output value of DRAM chips is estimated to slightly rise by only approximately 0.3% to reach US\$91.54 billion in 2022. In terms of the flash memory of Nand Flash, with the stacked layer technology of each memory chip manufacturer continuing to be advanced, it is expected that the growth rate of bits supplied will be approximately 31.8% in 2022, higher than the growth rate of 30.8% on the demand side. Therefore, it is expected that the price of flash memory chips will decrease more significantly than that of DRAM. However, it is expected that the total output value of Nand Flash will increase by 7.4% to US\$74.19 billion in 2022, benefiting from the rapid growth of the overall market scale.

The Group's memory business has been sorted out and adjusted in the second half of 2021, and has begun to actively expand in new data center applications, expecting to achieve better results in 2022.

Automotive Electronics

From the perspective of technological development trend, DVRs with high definition, wide view, high resolution and enhanced night vision have become a popular trend in the industry, and a large number of DVR products on the market have begun to integrate ADAS functions, equipped with various sensors and image recognition technology to assist driving. In the future, as DVR products gradually develop from having the original single function to becoming intelligent, large-screen, AI-based and interactive, the functions and types of the products will be upgraded, which will promote the increase in the sales unit price of chips of DVR products, the increase in both demand and the value of a single machine, and the market size is thus expected to achieve substantial growth.

We believe that the development trend of electrification, intelligence and autonomous driving of automobiles is relatively clear and lasting, and the market volume is huge. In the future, for both autonomous driving based on single-vehicle intelligent technology and autonomous driving function based on vehicle-road coordination, the demand and dependence of the automotive industry on semiconductor chips will increase significantly. This market may be the largest incremental market for the semiconductor industry in the future. Therefore, in the new year, this business unit will introduce more valuable new product lines and strive to expand its business in the factory-installed automobile market.

Independent Distribution

The serious imbalance in supply and demand in the semiconductor chip supply chain brought a lot of business opportunities to the independent distribution business in 2021. Although it is generally believed that the supply chain imbalance has improved in 2022, it should be noticed that there are no fundamental improvements in the COVID-19 pandemic or geopolitics, so uncertainties on the market side still exists, and demand will still exist. In this regard, the Group will continue to invest resources to develop independent distribution business and enhance the professionalism and business scale of its services. This business unit will also carry out business cooperation with various branches of the Group and self-operated e-commerce platforms according to the new industry development trend, so as to develop its own characteristics and advantages while becoming bigger and stronger.

For the semiconductor industry, 2021 is a rare harvest year, and 2022 is full of opportunities and challenges. We need to support the sustainable development of our business through more accurate operations. Therefore, the Group will continue to promote the digital development of enterprises and strive to improve its all-round distribution ability. In the field of mature authorized distribution, we will continue to increase resource investment in business units that have made breakthroughs to consolidate and expand market share. At the same time, the Group will seize the development opportunities of the new semiconductor industry by setting up a new business unit, so as to better meet the needs and challenges from the upstream and downstream of the industry chain, and to grasp the market development opportunities.

In the field of technology value-added business, the Group will continue to sort out the business of technology value-added business units, focusing on reducing costs and increasing efficiency through resource integration. At the same time, in specific sub-sectors, we will fully apply technology to realize productization, programization and conversion to IP, so as to realize true integration of hardware design, software development, and cloud data services on the Group's technology value-added platform to meet the needs of the closed-loop business of the local semiconductor industry chain, with an aim to achieve high-quality growth in business revenue.

In the design and manufacturing of optical communication chips, we will make full use of the national and local industrial preferential policies for the development of semiconductor chips, seize new opportunities for the development of optical communication chips, and take this opportunity to build the Group's core technical capabilities in the design and manufacturing of semiconductor chips.

In 2022, we will accelerate the expansion of the Group's business on the basis of sound operation and active innovation to further enhance the scale and profitability of the Group's business, and continue to improve the quality of operations, bringing better returns and long-term value to the shareholders of the Company (“**Shareholders**”).

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2021, the Group's revenue amounted to HK\$10,389.3 million (2020: HK\$5,541.0 million), representing an increase of HK\$4,848.3 million (87.5%) as compared with the revenue for the year ended 31 December 2020.

The increase in revenue was mainly caused by the increase in the sales from our optoelectronic displays, communication products, smart terminals and video processing of approximately HK\$2,363.3 million and the increase in the sales from independent distribution of approximately HK\$2,254.5 million.

Gross profit

Our gross profit for the year ended 31 December 2021 increased by HK\$679.5 million to HK\$990.0 million as compared with the prior year (2020: HK\$310.5 million). Our gross profit margin increased by 3.9 percentage points to 9.5% for the year ended 31 December 2021 (2020: 5.6%). The increase in gross profit margin was principally the effect of the higher gross profit margin from the independent distribution.

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 2021, research and development expenses amounted to HK\$40.2 million, increased by 56.4% as compared with the year ended 31 December 2020 (2020: HK\$25.7 million). The increase was mainly due to an increase in staff costs.

Administrative and selling and distribution expenses

Administrative and selling and distribution expenses aggregated to HK\$414.2 million for the year ended 31 December 2021 (2020: HK\$168.5 million), which accounted for 4.0% of the revenue for the year ended 31 December 2021 as compared with 3.0% over the corresponding year in 2020. The net increase of HK\$245.7 million was mainly attributable to an increase in staff costs and marketing expenses to support the expansion of business.

Finance costs

The Group's interest expense on bank and other borrowings for the year ended 31 December 2021 amounted to HK\$53.8 million, an increase of HK\$35.6 million as compared with that in 2020 (2020: HK\$18.2 million). Interest expenses mainly represent the borrowings cost from entering into various factoring agreements with some of the principal bankers and import loans from our principal bankers. The increase was due to the increase in bank borrowings to meet the operating needs.

Share of result of an associate

The Group had recorded a loss on share of result of an associate for the year ended 31 December 2021 of approximately HK\$4.8 million (2020: Nil). The loss was mainly due to the increase in the amount of sharing of result of an associate, namely Galasemi (Shanghai) Co. Ltd. (GSCL), which was established in February 2021, as a result of the initial phase of company operation.

Profit for the year

For the year ended 31 December 2021, the Group's profits amounted to HK\$391.9 million, representing an increase of HK\$306.5 million as compared to HK\$85.4 million in 2020, representing an increase of 358.9%. The net profit margin for the year ended 31 December 2021 was 3.8%, compared to 1.5% for the year ended 31 December 2020. The increase in the profit for the year was mainly contributed by the increase in gross profit.

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 2021 amounted to HK\$214.1 million, representing an increase of 201.5% as compared with the year ended 31 December 2020 (2020: HK\$71.0 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.

For the year ended 31 December 2021, the Group had utilised HK\$33.3 million of the net proceeds from the Listing. The Group has utilised approximately HK\$171.7 million of the net proceeds as at 31 December 2021 according to the intentions set out in the prospectus of the Company dated 27 September 2016 (the “**Prospectus**”). The unutilised net proceeds in the amount of HK\$34.1 million have been placed as deposits with licensed banks and are expected to be utilised as set out on the Prospectus.

| Use of Proceeds | Net proceeds (in HK\$ million) | Utilised during 31 December 2021 (in HK\$ million) | Utilised as at 31 December 2021 (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 | 0.0 | (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 | 0.0 | (41.2) | 0.0 | – |
| 3. Enhancing, further developing and maintain our e-commerce platform and improving our technology infrastructure | 41.2 | (0.2) | (7.1) | 34.1 | Expected to be fully utilised on or before 31 December 2022 |
| 4. For research and development | 20.6 | 0.0 | (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 | (33.1) | (61.7) | 0.0 | – |
| 6. General working capital | 20.5 | 0.0 | (20.5) | 0.0 | – |
| | <u>205.8</u> | <u>(33.3)</u> | <u>(171.7)</u> | <u>34.1</u> | |

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 identify suitable resource, including personnel, suppliers and service providers, for the development of e-commerce platform and technology infrastructure.

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 2021, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK\$711.8 million (31 December 2020: HK\$416.7 million).

As at 31 December 2021, the outstanding bank borrowings of the Group were HK\$1,638.1 million (31 December 2020: HK\$727.1 million). The Group's gearing ratio, which is calculated by the interest-bearing borrowings divided by total equity, increased from 108.5% as at 31 December 2020 to 159.8% as at 31 December 2021 as a result of the increased level of bank borrowings to finance our expanded working capital needs.

As at 31 December 2021, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK\$2,917.6 million and HK\$1,427.7 million (31 December 2020: HK\$1,173.5 million and HK\$449.6 million) respectively.

As at 31 December 2021, the Group had current assets of HK\$3,387.4 million (31 December 2020: HK\$2,009.2 million) and current liabilities of HK\$2,571.4 million (31 December 2020: HK\$1,481.4 million). The current ratio was 1.32 times as at 31 December 2021 (31 December 2020: 1.36 times). The increase in current assets is primarily due to the increase in trade receivables as compared with 31 December 2020, which is attributable to the increase in revenue and transaction volume.

The Group's debtors' turnover period was 54 days for the year ended 31 December 2021 as compared to 62 days for the year ended 31 December 2020. The overall debtors' turnover period was within the credit period. The decrease in debtors' turnover period was due to the higher debtors' turnover rate of independent distribution which revenue increased sharply during the current period.

The creditors' turnover period was 22 days for the year ended 31 December 2021 as compared with 34 days for the year ended 31 December 2020. The creditors' turnover period improved which was due to the more timely repayment of the amounts due to our suppliers during the current period.

The inventories' turnover period was 20 days for the year ended 31 December 2021 as compared with 21 days for the year ended 31 December 2020. 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 gain of approximately HK\$0.8 million for the year ended 31 December 2021 (31 December 2020: net foreign exchange loss of 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 31 December 2021, the financial assets at fair value through profit or loss (the "FVTPL") amounted to HK\$147.3 million (31 December 2020: HK\$130.1 million), trade receivable factored amounted to HK\$854.3 million (31 December 2020: HK\$580.3 million) and bank deposits amounted to HK\$420.8 million (31 December 2020: HK\$178.2 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 2021 and 2020.

Significant investment held

Save for the financial assets at FVTPL as disclosed above, the Group did not hold any significant investments during the years ended 31 December 2021 and 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 year ended 31 December 2021.

Employees

As at 31 December 2021, the Group had 570 employees (31 December 2020: 444 employees), with a majority based in Shenzhen, Suzhou and Hong Kong. Total employee cost for the year ended 31 December 2021, excluding the remuneration of the Directors were approximately HK\$279.7 million (31 December 2020: HK\$108.3 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 (the “**Share Award Scheme**”) and conditionally approved and adopted a share option scheme (the “**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 (the “**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 2021, no share awards and share options were granted to the employees by the Company pursuant to the Share Award Scheme and the Share Option Scheme respectively.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2021, the Company bought back a total of 1,960,000 shares on the Stock Exchange (the “**Share Repurchase**”) and a total of 4,274,000 shares bought back were cancelled by the Company on 5 March 2021. Details of the purchases of shares are as follows:

| Month of buy-back | Number of Shares bought back | Price per Share Highest <i>HK\$</i> | Price per Share Lowest <i>HK\$</i> | Aggregate price (excluding commission fee and etc) <i>HK\$</i> |
|-------------------|------------------------------|--|---------------------------------------|---|
| January 2021 | 1,960,000 | 1.26 | 1.20 | 2,421,660 |

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.

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 2021.

EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

Up to the date of announcement, the Group has no significant subsequent event after 31 December 2021 which required disclosure.

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 ethics, 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 2021. 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 2021.

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 2021 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 Ms. Xu Wei. 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 2021 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 2021 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 of the Group for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or 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 2021 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 Wednesday, 25 May 2022. 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 Friday, 20 May 2022 to Wednesday, 25 May 2022, 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 Thursday, 19 May 2022.

For ascertaining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 2 June 2022 to Tuesday, 7 June 2022, 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 Wednesday, 1 June 2022.

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

Hong Kong, 31 March 2022

As at the date of this announcement, the Board comprises Mr. Tian Weidong (Chairman), Mr. Wong Tsz Leung, Mr. Liu Hongbing and Mr. Mak Hon Kai Stanly as executive Directors, Mr. Zheng Gang, Mr. Tang Ming Je and Ms. Xu Wei as independent non-executive Directors.