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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)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

- Total revenue of the Group for the six months ended 30 June 2022 amounted to HK$5,661.5 million (2021: HK$4,911.9 million), representing an increase of 15.3% as compared with the corresponding period in 2021.

- Gross profit of the Group for the six months ended 30 June 2022 amounted to HK$677.1 million (2021: HK$415.9 million), representing an increase of 62.8% as compared with the corresponding period in 2021.

- Net profit attributable to the owners of the Company for the six months ended 30 June 2022 amounted to HK$145.2 million (2021: HK$94.6 million), representing an increase of 53.5% as compared with the corresponding period in 2021.

- Basic and diluted earnings per share for the six months ended 30 June 2022 were HK29.78 cents (2021: HK19.36 cents) and 29.66 cents (2021: HK19.36 cents) respectively.

- The Board resolved to declare an interim dividend of HK4 cents per share for the six months ended 30 June 2022 (six months ended 30 June 2021: HK4 cents).

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Smart-Core Holdings Limited (the "**Company**") is pleased to announce the condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**", "**we**" or "**our**") for the six months ended 30 June 2022 (the "**Reporting Period**") with the comparative figures for the corresponding period in 2021. These results were based on the 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 (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3A & 3B*	**5,661,548**	4,911,942
Cost of sales		**(4,984,423)**	(4,496,043)
Gross profit		**677,125**	415,899
Other income		**4,733**	4,596
Other gains or losses, net		**(20,596)**	(1,249)
Impairment losses reversed (recognised) under expected credit loss model, net		**22,253**	(15,314)
Research and development expenses		**(20,215)**	(19,014)
Administrative expenses		**(69,746)**	(52,031)
Selling and distribution expenses		**(192,387)**	(115,769)
Finance costs		**(35,807)**	(21,034)
Share of result of an associate		**(3,327)**	(739)
Profit before tax	*4*	**362,033**	195,345
Income tax expense	*5*	**(62,267)**	(33,715)
Profit for the period		**299,766**	161,630
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(7,535)**	684
Share of other comprehensive (expense) income of an associate		**(1,536)**	338
Other comprehensive (expense) income for the period		**(9,071)**	1,022
Total comprehensive income for the period		**290,695**	162,652

		Six months ended 30 June	
		2022	2021
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Profit for the period attributable to:			
Owners of the Company		**145,230**	94,576
Non-controlling interests		**154,536**	67,054
		299,766	161,630
Total comprehensive income for the period attributable to:			
Owners of the Company		**136,262**	95,615
Non-controlling interests		**154,433**	67,037
		290,695	162,652
Earnings per share:			
Basic (HK cents)	*7*	**29.78**	19.36
Diluted (HK cents)		**29.66**	19.36

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Financial Position

As at 30 June 2022

	NOTES	**As at 30 June 2022** *HK$'000* **(unaudited)**	As at 31 December 2021 *HK$'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**11,466**	8,408
Right-of-use assets		**22,094**	26,689
Goodwill		**9,735**	9,735
Intangible asset		**3,189**	4,384
Club debentures		**5,303**	5,433
Investment in an associate		**28,431**	33,293
Deposits, prepayments and other receivables		**2,465**	2,543
Deferred tax asset		**5,419**	9,011
Financial assets at fair value through profit or loss		**146,680**	152,149
		234,782	251,645
CURRENT ASSETS			
Inventories		**646,197**	606,026
Trade receivables	*8*	**1,948,502**	1,984,625
Deposits, prepayments and other receivables		**112,678**	84,954
Pledged bank deposits		**424,799**	420,830
Bank balances and cash		**513,676**	290,931
		3,645,852	3,387,366
CURRENT LIABILITIES			
Trade payables	*9*	**627,327**	536,103
Other payables and accrued charges		**238,614**	272,945
Lease liabilities		**13,688**	13,705
Contract liabilities		**35,827**	33,895
Amount due to non-controlling shareholders of a subsidiary		**25,838**	4,363
Tax liabilities		**120,200**	81,829
Bank and other borrowings	*10*	**1,545,025**	1,628,565
		2,606,519	2,571,405

	NOTES	As at 30 June 2022 HK$'000 (unaudited)	As at 31 December 2021 HK$'000 (audited)
NET CURRENT ASSETS		**1,039,333**	815,961
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,274,115**	1,067,606
NON-CURRENT LIABILITIES			
Deferred tax liability		**526**	724
Lease liabilities		**9,935**	14,440
Bank and other borrowings	*10*	**7,627**	9,567
		18,088	24,731
NET ASSETS		**1,256,027**	1,042,875
CAPITAL AND RESERVES			
Share capital		**38**	38
Reserves		**896,291**	805,949
Equity attributable to owners of the Company		**896,329**	805,987
Non-controlling interests		**359,698**	236,888
TOTAL EQUITY		**1,256,027**	1,042,875

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

The condensed consolidated financial statements have been 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**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. The 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 2021.

The functional currency of the Company is United States Dollars ("**US$**") and the presentation currency of the Group's condensed consolidated financial statements is Hong Kong Dollars ("**HK$**"). The directors of the Company considered that using HK$ as presentation currency enables the shareholders and potential investors of the Company to have a more accurate picture of the Group by aligning the Group's financial performance with the Company's share price.

2. PRINCIPAL ACCOUNTING POLICIES

The 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 additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2021.

2.1 Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

Except as described below, the application of the amendments to HKFRSs in the current interim 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 condensed consolidated financial statements.

2.2 Impacts and changes in accounting policies on application of Amendments to HKFRS 3 Reference to the Conceptual Framework

2.2.1 Accounting policies

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "**Conceptual Framework**") except for transactions and events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies*, in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

2.2.2 Transition and summary of effects

The Group applies the amendments to business combinations for which the acquisition date is on or after 1 January 2022. The application of the amendments in the current period had no impact on the condensed consolidated financial statements.

2.3 Impacts on application of Amendments to HKFRSs Annual Improvements to HKFRSs 2018–2020

The Group has applied the annual improvements which make amendments to the following standards:

HKFRS 9 Financial Instruments

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

HKFRS 16 Leases

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements.

3A. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Types of goods:		
Sale of electronic components	**5,661,548**	4,911,942
Sales channel/product lines:		
Authorised distribution		
Optoelectronic displays	**685,945**	868,453
Memory products	**203,300**	291,864
Communication products	**434,097**	271,964
Smart vision	**621,240**	636,284
Smart displays	**1,516,228**	1,579,950
Integrated products	**107,016**	40,393
Others *(Note)*	**128,529**	103,991
	3,696,355	3,792,899
Independent distribution	**1,965,193**	1,119,043
	5,661,548	4,911,942
Geographical markets:		
Hong Kong	**4,149,635**	4,117,441
The PRC	**1,058,542**	766,390
Singapore	**370,661**	28,111
Japan	**82,710**	–
	5,661,548	4,911,942

Note: Others mainly comprising the sales of optoelectronic products.

During the six months ended 30 June 2022, the Group has reorganised its sales channel/product lines for authorised distribution in order to cater for the business development of different sales channels as well as better internal performance measurement for the future resources allocation of different products, and accordingly, the majority of television products and smart devices have been regrouped as smart display and majority of video processing and other product lines have been re-grouped as smart vision during the current period. The comparative figures have been restated and represented in order to conform to the disclosure of current period.

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

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

Customers can only return or request refund if the goods delivered do not meet required quality standards. As at 30 June 2022 and 2021, 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 board of directors, being the chief operating decision maker (the "**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.

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

Six months ended 30 June 2022 (unaudited)

	Authorised distribution *HK$'000*	**Independent distribution** *HK$'000*	**Segment total** *HK$'000*	**Elimination** *HK$'000*	**Consolidated** *HK$'000*
SEGMENT REVENUE					
Revenue from external customers	**3,696,355**	**1,965,193**	**5,661,548**	**–**	**5,661,548**
Inter-segment sales*	**38,635**	**38,412**	**77,047**	**(77,047)**	**–**
	3,734,990	**2,003,605**	**5,738,595**	**(77,047)**	**5,661,548**
Segment profit	**76,620**	**232,709**	**309,329**	**–**	**309,329**

* Inter-segment sales are charged at cost

Less: Unallocated expenses	**(2,092)**
Fair value loss on financial assets at fair value through profit or loss ("**FVTPL**")	**(4,144)**
Share of result of an associate	**(3,327)**
Profit for the period	**299,766**

Six months ended 30 June 2021 (unaudited)

	Authorised distribution *HK$'000*	Independent distribution *HK$'000*	Segment total *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE					
Revenue from external customers	3,792,899	1,119,043	4,911,942	–	4,911,942
Inter-segment sales*	18,524	2,090	20,614	(20,614)	–
	3,811,423	1,121,133	4,932,556	(20,614)	4,911,942
Segment profit	77,173	90,394	167,567	–	167,567

* Inter-segment sales are charged at cost

Less: Unallocated expenses	(4,658)
Fair value loss on financial assets at FVTPL	(540)
Share of result of an associate	(739)
Profit for the period	161,630

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3 to the Group's annual financial statements for the year ended 31 December 2021. Segment profit represents the profit earned by each segment without allocation of unallocated expenses, fair value loss on financial assets at FVTPL and share of result of an associate. 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	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Allowance for inventories (included in cost of sales)	**22,138**	1,609
Amortisation of intangible asset (included in selling and distribution expenses)	**1,195**	1,195
Cost of inventories recognised as an expense	**4,962,285**	4,494,434
Depreciation of property, plant and equipment	**1,565**	1,015
Depreciation of right-of-use assets	**6,955**	5,901
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**164,596**	115,582
Retirement benefit scheme contributions	**13,004**	8,456

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profits Tax	**43,318**	33,870
The PRC Enterprise Income Tax ("**PRC EIT**")	**1,445**	2,597
Singapore Corporate Tax ("**CIT**")	**14,026**	–
Others	**4**	–
	58,793	36,467
Deferred tax	**3,474**	(2,752)
	62,267	33,715

6. DIVIDENDS

During the current interim period, a final dividend of HK8 cents per share in respect of the year ended 31 December 2021 (2021: HK4 cents per share in respect of the year ended 31 December 2020) 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$39,094,000 (2021: HK$19,547,000).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK4 cents (2021: HK4 cents) per share amounting to HK$19,547,000 (2021: HK$19,547,000) in aggregate in respect of the six months ended 30 June 2022 will be paid to the shareholders whose names appeared on the register of members as at the close of business on 16 September 2022.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	**145,230**	94,576

	Six months ended 30 June	
	2022	2021
	(unaudited)	(unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**487,725,229**	488,620,091
Effect of dilutive potential ordinary shares		
Restricted share units (the "**RSUs**")	**2,000,000**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**489,725,229**	488,620,091

For the six months ended 30 June 2022, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account of 4,000,000 (30 June 2021: 250,000) ordinary shares purchased by the Trustees from the market pursuant to the share award scheme of the Company for those unvested awarded shares and ungranted shares.

8. TRADE RECEIVABLES

The Group allows credit period of 0 to 120 days and 180 days to its customers with settlement by cash and its customers with settlement by bills, respectively. The following is an analysis of trade receivables by age, presented based on the invoice date, which approximated the respective revenue recognition date.

	30 June 2022	31 December 2021
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–60 days	**1,326,790**	1,412,829
61–120 days	**537,195**	479,411
Over 120 days	**84,517**	92,385
	1,948,502	1,984,625

As at 30 June 2022, total bills received amounting to HK$9,680,000 (31 December 2021: HK$105,178,000) with a maturity period ranging from 30 to 180 days (31 December 2021: 30 to 180 days) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period.

9. TRADE PAYABLES

The credit period on trade purchases is 0 to 60 days.

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

	30 June 2022	31 December 2021
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–30 days	**543,093**	448,331
31–60 days	**24,334**	56,621
61–90 days	**13,645**	27,712
Over 90 days	**46,255**	3,439
	627,327	536,103

10. BANK AND OTHER BORROWINGS

	30 June 2022	31 December 2021
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Import and export loans	**729,328**	747,803
Other bank borrowings *(Note)*	**823,324**	890,329
	1,552,652	1,638,132
Carrying amounts of the above borrowings are repayable*		
— within one year	**1,545,025**	1,628,565
— one to two years	**3,683**	5,858
— two to five years	**3,944**	3,709
	1,552,652	1,638,132
Carrying amounts of borrowings that contain a repayable on demand clause (shown under current liabilities)	**1,478,948**	1,625,127
Analysed as:		
Secured	**1,545,025**	1,631,917
Unsecured	**7,627**	6,215
	1,552,652	1,638,132

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

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK4 cents per share for the six months ended 30 June 2022 (six months ended 30 June 2021: HK4 cents per share) and is expected to be paid on or about Friday, 30 September 2022 to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 16 September 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 14 September 2022 to Friday, 16 September 2022, 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, 13 September 2022.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2022, global economic recovery was severely hampered by the COVID-19 pandemic, trade protectionism, inflation in Europe and U.S. and geopolitics. The Russia-Ukraine conflict that erupted in February dealt a heavy blow to the European economy and resulted in severe energy shortages, inflation and capital outflows in Europe. And the raising interest rates and tapering by the Fed since March resulted in capital outflows from non-U.S. economies and rising borrowing costs in U.S. dollars, which caused turmoil in international financial markets and negatively affected personal consumption and corporate investment around the globe. As a result, global supply and demand were under downward pressure, industrial production, corporate investment, residents' consumption and international trade all slowed down, economic growth plunged and inflation rose across the board. In its latest Global Economic Prospects released in June, the World Bank predicted that global economic growth is expected to slow sharply from 5.7% in 2021 to 2.9% in 2022, a forecast that was lowered twice during the year. According to the survey data from NPD, more than 80% of U.S. consumers are planning to cut consumptions in the next three to six months. In addition, there are still challenges and uncertainties in the Sino-US relations. These factors will have a profound impact on the development and direction of the global electronic information manufacturing and semiconductor industries in 2022.

In the first half of 2022, China witnessed the outbreak of the COVID-19 pandemic in southern, northern and eastern China, and the prevention and control measures had severely disrupted domestic supply chain, manufacturing industry and consumption, so that our economic growth slowed down and market expectations deteriorated. According to the data released by the National Bureau of Statistics, China's GDP grew by 2.5% year-on-year in the first half of 2022, lower than market's expectation. However, some core statistical data also made positive indications. The Electronic Industry Operating Data Report for the First Half of 2022 released by the China Academy of Information and Communications Technology shows that in the first half of 2022, the output of the electronic manufacturing industry above designated size in China grew by 10.2% year-on-year, with a slight increase in corporate benefits and a strong resilience in manufacturing industry. According to the trade data released by the General Administration of Customs of the PRC, China's imports and exports maintained a rapid growth in the first half of 2022. Exports grew by 13% and trade surplus amounted to RMB2.48 trillion.

According to the Semiconductor Industry Association (SIA), worldwide semiconductor sales reached US$151.7 billion in the first quarter of 2022, up 23% from the same period last year, although the growth rate began to decline in March. According to the General Administration of Customs of the PRC, from January to May 2022, although China's wafer import value increased by 9.1% year-on-year, wafer import volume decreased by 10.9%, or approximately 28.3 billion units in total, which means that the actual demand for wafers from Chinese manufacturing plants sharply reduced, and the increase in import value was mainly due to the increase in the average price of wafers. According to industry data analysis, the semiconductor industry has entered a downward cycle since the third quarter of 2021 after three years' prosperity, and is expected to bottom out in 2023.

In the first half of 2022, although uncertainties were rife in global economy and the electronic components market, the industry saw a phase of structural adjustment. Confronted with complex market changes, Smart-Core Holdings fully leveraged its advantages with prudent judgment on situation to capture new market focus and increased demand, while actively explored overseas markets for new opportunities, striving to overcome the headwinds resulted from sluggish demand. In addition, it enhanced the construction of digitalized platform to improve operational efficiency and continuously promote the Group's capability on "all-around" distribution. In the first half of 2022, the Group achieved increase in both sales and profits, with aggregate sales of HK$5,661.5 million, up by 15.3% year-on-year, and net margin of HK$677.1 million, up by 62.8% year-on-year.

For the specific business segmentation, the authorized semiconductor chip distribution business in business units such as smart displays, smart vision and optoelectronic products maintained steady revenue, while optoelectronic displays and memory product business units saw a decline in revenue. For communication products and independent distribution business, substantial increase in revenue was materialized. Overall, the Group embraced further improvement in business layout and operation with a more balanced development. The following is a business review of the main segments of the Group.

AUTHORISED DISTRIBUTION

Smart Displays

According to statistics released by Omdia (a market research firm) in June, global TV sales declined by 4.3% year-on-year in the first quarter of 2022. Omdia revised global TV shipments in 2022 down to 209 million units, representing a decrease of 4.743 million units as compared with that in 2021, or a year-on-year decrease of 2.2%. Sigmaintell, another industry research firm, was of the view that the demand for TV sets had shrinked dramatically as global economy suffered a heavy setback from the combined effects of factors such as the epidemic, geopolitical, inflation and interest rate hikes. Given the global TV shipments experienced a year-on-year drop of 7.1% in the first quarter of 2022, which is estimated to further decline by 8.8% in the second quarter, the performance of the TV market as a whole was dissatisfactory in the first half of the year, struggling to maintain the business. For STB/OTT/IPTV products, the market trends of which are higher relevance to the TV market, a flat market presented in the first half of the year. In conclusion, under the stagnant market, the performance of this business unit remained stable in the first half of the year, with aggregate sales of HK$1,516.2 million, representing a slight decrease of 4.0% year-on-year.

Optoelectronic Displays

The optoelectronic display business mainly focuses on the sales of related chips for the fields such as display, notebook screen driver, touch screen, CMOS image sensor for mobile phone, projection and power supply. According to statistics from Canalys, a market research firm, the overall demand for consumer electronics was sluggish in the first half of the year due to the combined effects of the epidemic, geopolitics, inflation and interest rate hikes. Global shipments of PCs and notebooks decreased by 3% year-on-year in the first quarter, and further dropped by 15.0% in the second quarter. As for the mobile phone market, statistics from Canalys indicated that global smartphone shipments fell by 11% year-on-year in the first quarter of 2022. According to CAICT, domestic mobile phone shipment from January to May was 108 million units in total, decreasing by 27.1% year-on-year. Under slack demand in the end market and high inventories of sales channel, there is news from the market that the local top three mobile phone brands of China have informed suppliers that they will cut orders by approximately 20% in the next few quarters. The sluggish demand in the end market have material impacts on the chip shipments of Tcon, Driver, Power, Scaler and CMOS image sensor within the business unit. In the first half of 2022, this business unit recorded an aggregate sales of HK$685.9 million, representing a significant decrease of 21.0% year-on-year.

Smart Vision

In the first half of 2022, the reoccurrence of pandemic across the country has resulted in hindrance to the resumption of work and production, rising prices of raw materials, incremental uncertainty of goods supply, extended lead time and prolong transportation time, etc., which seriously affected the normal production and operation of clients in East China, and in turn caused a significant impact on the production and shipment of clients and the achievement of projects. According to the market information feedbacked from the business department, the market performance related to smart vision in the first half of this year decreased from the second half of last year, but was slightly better than the same period last year. Smart vision, anti-theft alarm, entrance control, community security and overseas markets maintained a steady growth, while the major security enterprises still maintain a positive momentum to take the initiative in business layout for seeking new breakthroughs. In the first half of this year, due to the impact of supply chain fluctuations caused by the pandemic in China, the shipment volume of this business unit in the first half of the year was less than expected, with cumulative sales of HK$621.2 million, representing a slight year-on-year decrease of 2.4%.

Communication Products

Even in the face of the pandemic and the complex and severe economic situation, with the advent of the Internet of everything trend, the cellular Internet of Things (IoT) module segment has seen the surge of demand as any IoT device that needs to be connected to the Internet through the mobile communication network is required to be equipped with the cellular IoT module. According to statistics from research firm, Counterpoint, the global cellular IoT module shipments in the first quarter of 2022 significantly increased by 35% year-on-year, and among the top 10 global module manufacturers, 7 China-based enterprises dominated the market by virtue of their 62.4% market share in aggregate. The statistics also indicated that by the end of May 2022, the household users of the cellular IoT terminals developed by the three basic telecom enterprises in China reached 1.59 billion, with a net increase of 196 million household users in the first five months of this year, representing a trend of rapid growth in the market. The shipment of MCP memory chips and radio frequency PA chips promoted and sold by this business unit for cellular IoT modules maintained a rapid growth in the first half of the year. Meanwhile, the sales of newly expanded cellular communication modules also made progress, which drove this business unit to achieve significant growth. This business unit achieved cumulative sales of HK$434.1 million in the first half of 2022, representing a significant increase of 59.6% year-on-year.

Memory Products

Since the second half of last year, the market demand for consumer electronics products such as personal computers, smartphones, tablets and smart televisions has shown varying degrees of weakness. Since consumer electronics demand for memory chips accounts for more than half of the overall market, the decline in consumer electronics shipments directly led to an oversupply of memory chips, therefore average price of memory chips began to decline. Prices of memory chips briefly rebounded in the first quarter of this year due to the contamination of flash memory foundries in Japan, but continued their downward trend in the second quarter as the recovery of production capacity. This business unit achieved cumulative sales of HK$203.3 million in the first half of 2022, representing a decrease of 30.3% year-on-year.

Integrated Products

The integrated product segment includes AIoT product group, MCU product group, CE product group and software product group, all of which belong to the business units that the Group focuses on cultivating in the fields of Internet of Things, smart hardware and consumer electronics. Among them, the AIoT product group mainly focuses on WLAN, Bluetooth, 2.4G and other wireless interconnection markets, the MCU product group focuses on expanding various smart hardware applications, the CE product group focuses on the consumer electronics market, and the software product group is based on the SaaS cloud services of Baidu Cloud and Tencent Cloud as well as software products to expand various intelligent application markets. Benefiting from the rapid growth of the Internet of Things, smart hardware and software service market in recent years, although the product line of this business unit is still in the cultivation period, and its overall sales account for a small proportion of the Group's total sales, it recorded rapid growth and achieved sales of HK$107.0 million in the first half of 2022, representing a significant year-on-year increase of 164.9%.

Optoelectronic Products

This business unit mainly promotes and sells core optical devices such as PD, APD, TO modules applied in 5G wireless optical communication modules and data center optical interconnect modules, as well as AOC (active optical cable) solutions and various interface conversion chips. Industry statistics show that from 2017 to 2021, the global optical module market grew from US$6.043 billion to US$7.373 billion, and the global market share of domestic optical modules exceeded 50% in 2021. It is predicted that the global optical module market will reach US$8.132 billion in 2022, and the overall market is still in a stable upward trend. However, due to the severe inflation and recession expectations facing the global economy, 5G construction has slowed down, and the sales of optical modules for wireless access have continued to decline since last year, adversely affecting the sales of optical devices and modules in this business unit, while new materials and solutions are still being promoted, and have not yet been able to form performance output. As a result, this business unit underperformed in the first half of 2022, with cumulative sales of HK$50.8 million, representing a year-on-year decrease of 11.9%.

INDEPENDENT DISTRIBUTION

Benefiting from the growing market demand, the Group's independent distribution business achieved great development since 2021. In the first half of 2022, the demand in the domestic market began to trend downward, and the shipment amount fell sharply, but as the overseas electronics manufacturing industries have gradually resumed work and production, the imbalance in the overseas supply chain was more obvious, and the shortage of goods was serious. The Group has been actively deploying overseas markets for several years, so in the first half of 2022, the independent distribution business has achieved accumulated sales of HK$1,965.2 million in the first half of 2022, representing a significant year-on-year increase of 75.6%.

OUTLOOK

Looking ahead to the second half of 2022, increasing global stagflation risks, rising trade protectionism, ongoing pandemic, geopolitics and many other issues continue to affect the global economic recovery, and the global economy will remain in turmoil. In the Summer Economic Forecast report released by the European Commission in July, only the EU economic growth forecast of 2.7% in 2022 was maintained, and the economic growth forecast in 2023 was lowered from 2.3% to 1.5%. The inflation forecast data for this year and next year have been raised to 8.3% and 4.6%, respectively, putting economic development under pressure.

China is one of the major economies suffering severe hit by COVID-19 in the first half of the year. Nonetheless, its certain major indicators, such as import and export data, manufacturing purchasing managers' index (PMI), value-added industrial output etc., have shown a trend of stable recovery since the second quarter, especially the total import and export volume increased 9.4% against the adverse backdrop in the first half of the year. According to the third quarter of 2022 Economic and Financial Outlook released by the BOC Research Institute, despite the marked slowing in its GDP growth in the first half of the year and a number of uncertainties of the external environment in the second half of the year, its economic fundamentals will keep improving in the long run and the economic growth is expected to pick up quarter-on-quarter. The government officials and economic experts believe that in spite of the downward pressure on Chinese economy, its inflation is still relatively low and the outlook is relatively stable, and the government is expected to introduce certain policies to stimulate the economy to stabilize growth in the second half of the year.

As the core of electronic products and cornerstone of the electronic information industry, semiconductor chips are cutting-edge technology products with high-tech added value, having great strategic significance to the national economy and national security. In view of this, major economies around the world have been actively introducing support policies for and providing tremendous financial support to their own semiconductor industry in the past few years. Therefore, the global semiconductor industry will develop into a "multi-polar" competitive landscape in the future rather than follow the path of simple industrial chain transfer. According to the latest semiconductor market forecast released by the World Semiconductor Trade Statistics (WSTS) in June this year, the worldwide semiconductor market is expected to increase 16.3% to USD646.0 billion in 2022 and continues to grow by 5.1% in 2023. In addition, IDC, IC Insight and Gartner, all well-known industrial research institutes, also published their forecasts on the growth of the worldwide semiconductor market of 13.7%, 11% and 7.4%, respectively.

At this stage, the semiconductor industry is moving into a downward phase as the global economy making adjustment with the consumer electronics sector bearing the brunt. Some industry insiders even give up hopes for the "peak season" in the second half of the year as previous years. As it is generally believed that the industry players will make comprehensive inventory correction in the third quarter, thus there will be no peak season this year against the industrial tradition. Demand may not rebound from the decrease due to the domestic lockdowns implemented in the first half of the year to constrain the pandemic, probably leading to a further decline in revenue in the third quarter from the second. Nonetheless, as the demand for chips by new energy vehicles, the Internet of Things and other sectors is still rather strong, we believe that it is a structural adjustment of demand and the industry will gradually get into a new development stage and accumulate momentum for the next wave of growing.

As a leading all-round distributor of electronic components in China, our business diversification and deployment in overseas markets enabled us to improve our business resilience to risks. Certain new business lines fostered in previous periods started to generate revenue. As shown by the data in business review, the Group's operation was more balanced in compositions and more stable in growing in the first half of the year. The Group may encounter more challenges in operating due to the impact of the macro-environment in the second half of 2022, however, we are confident to overcome such challenges and achieve steady business growth. Specifically, for each business line of the Group, the outlook is as follows:

AUTHORIZED DISTRIBUTION

Smart Displays

Judging from the communication information between the business side and the customer group, customers are generally worried about the global economic downturn and trade protectionism, while the industry is not optimistic about the recovery of market demand in the second half of the year. However, it is also necessary to see that the value of the LCD panels accounts for approximately 60% of the cost of the TV in complete set. As the price of the panels has continued to decline in the previous year, the cost of the TV in complete set has also dropped significantly, and thus the products had space for price-off promotions. According to the statistics from TrendForce, taking the 43-inch TV panel as an example, the price of such panel fell from US$137 in July 2021 to US$55 currently, representing a drop of more than 50%. Therefore, the demand from the traditional peak season in the second half of the year, coupled with the Qatar Football World Cup in the fourth quarter of this year, has stimulated the demand for ultra-high-definition TV sets and set-top box products, thus the market demand is expected to pick up quarter by quarter. In addition, the forecast report released by Omdia, a market research agency, in the middle of the year also shows that the global TV shipments in the second half of 2022 are expected to increase by 4.3% year-on-year to 116.426 million units, and the market will pick up slightly.

There is also a clear trend that the demand for 4K/8K ultra-high-definition TVs will show a rapid growth trend. The National Radio and Television Administration issued the Opinions of the National Radio and Television Administration on Further Accelerating the Development of High-definition and Ultra-high-definition Television (《國家廣播電視總局關於進一步加快高清超高清電視發展的意見》) in June this year, which clearly states that starting from 1 July 2022, the qualified IPTV operation service agencies can gradually stop transmitting signals for standard-definition channel. By the end of 2025, the standard-definition TV channels across the country will be basically shut down, while the high-definition TV channels will become the basic broadcast mode with the large-scale supply of programs through ultra-high-definition channels. Therefore, it is foreseeable that the market demands for the high-end 8K TV and its ancillary set-top boxes will have the opportunity to start rapid growth. Besides, All View Cloud predicts that in 2022, the shipments of 8K TV market in China are expected to double year-on-year to 150,000 units. As for the market of set-top boxes, according to the statistics from the market research company (GMI), the shipments of the set-top boxes in many parts of the world have begun to bottom out, and it is expected that the global market size of set-top boxes will grow steadily from US$14.02 billion to US$16.23 billion from 2021 to 2028. The medium- and long-term development trend will be promising, but with inevitable short-term fluctuations. In conclusion, we are cautiously optimistic about the performance of this business segment for the second half of the year.

Optoelectronic Displays

In light of the continuous global inflation, it is generally believed that the demand for consumer laptops and commercial laptops around the world will begin to shrink in the second half of the year. The report released by the Topology Research Institute revised down the expected global shipments of laptops in the second half of 2022 by 5.2% to 109 million units, representing a decrease of 14.2% as compared to that for the second half of 2021. Meanwhile, the global shipments of laptops for the whole year of 2022 were revised down to 212 million units, representing a decrease of 13.8% as compared to that of 2021. It is probable that the shipment data for the year will be further revised down if the global economic inflation continues to remain at a high level.

The market research firm Gartner predicts that global mobile phone shipments are expected to decrease by 7.1% in 2022, and total global device (computers, tablets and mobile phones) shipments are expected to decrease by 7.6%, of which, smartphone shipments in Greater China are expected to decrease by 18.3%. The decrease in shipments of complete device will lead to a 20%-30% year-on-year decrease in shipments of camera modules and lenses for domestic Android-branded mobile phones in the third quarter this year, resulting in a 40% decrease in global shipments of CMOS image sensor chips. According to the data provided by Counterpoint, due to the lack of innovative functions and new application scenarios, and the deepening of data bundling between mobile phones and individual users, the replacement cycle of domestic users has increased from 24.3 months at the beginning of 2019 to the current 31 months. In other words, it takes an average of nearly 3 years for users to replace a new phone. Nevertheless, there are some potential favorable factors in the industry. As of the first quarter 2022, there are nearly 4.9 billion 4G users in the world, and the number of 4G users will reach a peak this year. The huge early stock of 4G mobile phone users will provide a huge customer base for the replacement tide of 5G mobile phones.

The shipments of chips on display and notebook panel modules involved in this business unit are greatly affected by the market demand for PCs and notebooks, so the overall market situation in the second half of the year is not optimistic. The shipment of mobile phone camera module is closely related to that of the complete device. The shipment data in the first half of the year has decreased significantly, and the market is likely to enter a new stable state. Coupled with the expected consumption incentive policies in the domestic market and 5G mobile phone replacement, it is expected that the market demand will gradually improve.

Smart Vision

At this stage, the demand for public safety management and control in countries around the world continues to remain at high level, the demand for smart city construction is also growing, and the global demand for smart vision-related products is strong. Market research firm Noviraa Insights said in its latest report that the global video surveillance market grew by 16.4% in 2021 due to easing restrictions on activities caused by the Covid-19 pandemic, with the price and shipment of surveillance cameras both increasing. The global video surveillance hardware and software market scale is expected to grow from US$25.3 billion in 2021 to US$28.2 billion in 2022. In specific product segments, home security monitoring equipment is a device with great demand potential in the field of security monitoring in smart homes. IDC predicts that the shipments of home security monitoring equipment will grow by more than 60% in 2022, and the compound growth rate of shipments from 2023 to 2025 will also exceed 35%. In general, the market prospect of smart security monitoring is promising with the continuous enhancement of people's security awareness. As of the end of 2021, the number of companies engaged in the security monitoring industry in Mainland China has amounted to approximately 30,000, with more than 1.6 million people employed, and the total production value of the industry has exceeded RMB800 billion. The total market volume is huge and still maintains a growth trend.

As for the automotive electronics business, with the continuous enrichment of automobile usage scenarios, automobiles are gradually becoming a type of mobile intelligent terminal similar to a smartphone, and an important node of the Internet of Things system. Based on the current situation, the market size of factory-installed products for automotive electronics is relatively large. However, due to the cautious attitude of OEMs for embedded electronic products, and the standard method of factory-installed products cannot meet the differentiated requirements of customers, the market development of factory-installed products is relatively slow, and the aftermarket has developed rapidly due to its advantages of personalized selection, easy installation, and moderate cost. Since June this year, relevant central departments have continuously released policy signals to promote automobile consumption. In July, 17 departments, including the Ministry of Commerce, issued a notice on measures to invigorate automobile circulation and expand automobile consumption, further strengthening policy guidance on automobile consumption. According to statistics from the China Automobile Association, in the first half of 2022, due to the outbreak of the epidemic in East China, automobile sales in China were 12.057 million, representing a year-on-year decrease of 6.6%. However, thanks to policy incentives, automobile sales resumed growth in June. It is estimated that automobile sales in China in 2022 are expected to reach 27 million units, representing a year-on-year increase of approximately 3%.

Based on the above, the market for this business unit is relatively stable and active, and the future growth expectations are relatively clear. In the second half of the year, superimposing policy incentives can form a good support for the business. Therefore, it is expected that this business unit will continue to maintain a good growth trend in the second half of the year.

Communication products

According to the global cellular IoT module market forecast report released by Counterpoint, a market research agency, the annual global cellular IoT module shipments will exceed 1.2 billion by 2030, with a compound annual growth rate of 12% from 2022 to 2030. With the withdrawal of the old generation of 2G cellular modules, the traditional application scenarios of 2G and 3G cellular modules will be differentiated into NB-IoT or 4G Cat.1, and the growth of future shipments will be mainly driven by 5G, NB-IoT and 4G Cat.1 bis technologies, with 5G growing the fastest with a CAGR of 60%, followed by 4G Cat.1 bis. According to the analysis by Berg Insight, a Swedish IoT market research company, IoT connections would grow in all major markets in China, Europe and North America in 2021. Thanks to the advantages brought by the ESIMS specification, the new IoT specification by the GSMA will further accelerate the adoption of this technology, which can provide greater flexibility for IoT solution providers, which is gaining widespread adoption across a range of vertical markets. Berg Insight predicts that there will be 4.3 billion IoT devices connected to cellular networks worldwide by 2026. At present, cellular IoT modules have been applied in many application scenarios such as wireless payment, automobile transportation, smart energy, smart security, and smart city. Looking forward to the second half of 2022, it is expected that this business unit is expected to continue to maintain rapid growth and achieve its full-year business goals.

Memory Products

According to the forecast data released by a market research firm, IC Insights, the global market size of the memory chip is expected to reach US$180.4 billion and US$219.6 billion in 2022 and 2023, representing an increase of 16.2% and 21.7% respectively, with the memory chip market maintaining a relatively fast growth. In the long term, with the application and popularity of features such as Internet of Vehicles (IoV) and automatic drive, the use of memory chips in the automotive field is expected to rise significantly in the next few years. However, in the short term, the average price of memory chips will continue to decline in the second half of 2022, as the overall market supply exceeds demand. According to the statistics of TrendForce, the average contract price of DRAM fell 10.6% quarter-on-quarter in the second quarter of this year, while the price of NAND also continued to fluctuate. It is expected that the average contract price of DRAM in the third quarter will drop by 21% quarter-on-quarter, while the price of NAND will drop by 12% quarter-on-quarter. As a result, the growth in market size was mainly due to the increase in total shipping capacity and the launch of higher performance products, which increased the average unit price of memory chips. After this business unit having experienced the issues of declining demand in consumer electronics market and insufficient supply in front-end supply chain in the first half of the year, the current situation in the second half of the year is characterised by more uncertainties in the market supply and demand, which will pose a challenge to business achievement in the second half of the year.

Integrated Products

According to the "State of the Internet of Things — Spring 2022 Report" released by market analyst IoT Analytics, the number of global IoT connections only grows by 8% to 12.2 billion active endpoints in 2021 due to the COVID-19 and chip shortages. The IoT market is expected to grow by 18% to reach 14.4 billion active connections in 2022. With further growth to approximately 27 billion connected IoT devices by 2025, the outlook for the future is positive.

As the core component of many electronic products, MCU chips are in great demand, and it is expected that the global market size of MCU will reach approximately US$21.5 billion by 2022. In recent years, although domestic MCU manufacturers have made rapid progress, there is still a significant gap in chip technology and market share compared to international giants, which needs time to be improved. Software services are mainly focused on areas relating to the IoT and intelligent hardwares, for promoting Baidu Cloud and Tencent Cloud SaaS services and application software represented by the Company. This business unit has made a sound progress in the first half of 2022.

To sum up, this business unit, which involves many of the new business directions and new product lines being nurtured by the Group, has achieved a negative growth in business volume in the first half of 2022 and is expected to continuously maintain a sound momentum of growth in the second half of the year as the market gradually picks up.

Optoelectronic Products

This business unit is promoting solutions to industry customers, including the solutions of 400G/800G silicon optical integration module for data centres, the solutions of next generation of 50G PON for FTTX, the solutions of coherent sink optical module and other hot solutions in the market. Of which, the silicon optical integration solutions include 100G DR1, 400G DR4 and 800G DR8 silicon optical integration solutions, which are mainly used in next generation of data centre applications. 50G PON solutions are the third generation of PON solutions, which will replace the current 10G PON products to become the mainstream of the next generation and are expected to be deployed in campus networks from 2023. However, the coherent optical communication solutions are technical solutions for the rapid growth of data traffic in backbone optical networks, which require a combination of powerful DSP processors and advanced optical device manufacturing technologies. Based on the current market situation, the 5G wireless optical module market, the focus of this business unit, is still unlikely to pick up in the near future, and it is expected that the new technology solutions under promotion will generate results by 2023. Therefore, this business unit is expected to remain under pressure to achieve results in the second half of this year.

INDEPENDENT DISTRIBUTION

According to the data released by the Bureau of Statistics, the utilisation rate of industrial production capacity in China was 75.8% for the first quarter of 2022, representing a decrease of 1.6 percentage points compared with the fourth quarter of 2021 and a decrease of 1.4 percentage points compared with the first quarter of 2021. Meanwhile, Southeast Asia's manufacturing has begun to recover. Vietnam, for example, has begun to open up the borders gradually since March 2022. Its total value of imports and exports of cargo recorded a month-on-month increase of 36.8% to US$66.73 billion in March. As can be seen in the trading data between China and Vietnam, some labour-intensive manufacturing industries are shifting to Vietnam. Vietnam's trade deficit with China was US$35.3 billion in 2020 and increased to US$54.0 billion in 2021. In particular, the trade deficit for the first half of 2022 hit US$35.0 billion, representing a year-on-year increase of 21.7%. A significant part of such trade deficits was related to supply chain services.

Since China's manufacturing system is the largest in the world, its supply chain resources and systems for electronic components are relatively complete and comprehensive. The reshoring of some electronics manufacturing orders to overseas countries will inevitably cause the failure to taking over such demand by the fragile local supply chains; thereby bring new development opportunities for independent distribution business.

2022 is a year full of uncertainties for the semiconductor industry. On one hand, market demand declined sharply due to the slowdown in the global economic growth as a result of significant inflation in Europe and America, geopolitics and other factors. On the other hand, the rising protectionism and gradual recovery of overseas manufacturing industry resulted in the reshoring of some orders from China to overseas countries, and the domestic manufacturing orders were also affected to a certain extent. In the semiconductor industry, in order to mitigate the pressure caused by surging costs of manufacturing and operations, the upstream OEMs increased the average selling price of electronic components successively, driving a new high of overall market size of semiconductor chips. Against the backdrop of declining actual market demand, this has created a false boom in terms of data.

In view of the fluctuation of the industry cycle and the development of the global economy, the demand for chips in the electronic information manufacturing industry may not resume growth until the end of 2023, and the revival journey remains uncertain as it is tied to the global economic turmoil. We, however, believe that the semiconductor industry will show a "multipolar" competition pattern in the coming years as it has become a core industry in the major economies around the world and has enjoyed strong support from all countries. Taking a wider span to observe the semiconductor industry, we can see that the market demand for semiconductor chips will remain surging for a long time, and we should be ready to grasp the opportunities of industry integration at each pullback in this process.

The Group has built up an "all-round" distribution development system leveraging on its years of development in authorized distribution, independent distribution, value-added technology, e-commerce platform, semiconductor design, manufacturing and testing, as well as proactive construction of domestic and overseas business networks. The sustained growth in operating indicators of the Group in recent years is inextricably linked to these business layouts. Moving forward, the Group will continue to consolidate and expand its authorized distribution business, and develop independent distribution business in conjunction with overseas market expansion and e-commerce platform construction. In the field of technology value-added business, we will deliver more productization solutions in specific market sectors; besides, we will also steadily promote the digital transformation of the Group to enhance operational efficiency. In terms of investment in the semiconductor industry, we will advance the business development of the new companies in a steady manner based on the established plan.

In the second half of 2022, we will accelerate the development of the Group's business on the basis of sound operation and active innovation to enhance the scale and profitability of the Group's business, bringing better returns and long-term value to the shareholders of the Company ("**Shareholders**").

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2022, the Group's revenue amounted to HK$5,661.5 million, representing an increase of HK$749.6 million (15.3%) as compared with the corresponding period in 2021 (HK$4,911.9 million). The increase in revenue level was mainly caused by the rapid increase in the sales from independent distribution business.

Gross profit

Our gross profit for the six months ended 30 June 2022 increased by HK$261.2 million (62.8%) to HK$677.1 million as compared with the corresponding period in 2021 (HK$415.9 million). Our gross profit margin increased by a percentage point of 3.5% to 12.0% for the six months ended 30 June 2022 (six months ended 30 June 2021: 8.5%). The increase in gross profit margin was principally caused by increase in gross profit margin from independent distribution and the sales of smart displays.

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 2022, research and development expenses amounted to HK$20.2 million, increased by 6.3% as compared with the six months ended 30 June 2021 (HK$19.0 million). The increase was mainly due to an increase in staff costs of our research and development personnel.

Administrative, selling and distribution expenses

Administrative, selling and distribution expenses aggregated to HK$262.1 million for the six months ended 30 June 2022 (six months ended 30 June 2021: HK$167.8 million), which accounted for 4.6% of the revenue for the six months ended 30 June 2022 as compared with 3.4% over the corresponding period in 2021. The increase was mainly due to an increase in staff costs of our selling and distribution personnel.

Finance costs

The Group's finance costs for the six months ended 30 June 2022 amounted to HK$35.8 million (six months ended 30 June 2021: HK$21.0 million). The Group has entered into various financing arrangements with principal bankers. The finance costs increased compared to the prior period which was mainly due to an increase in interest rate.

Profit for the period

For the six months ended 30 June 2022, the Group's profits amounted to HK$299.8 million, representing an increase of HK$138.2 million as compared to HK$161.6 million for the corresponding period in 2021, a rise of 85.5%. The net profit margin for the six months ended 30 June 2022 was approximately 5.3%, representing an increase of 2.0% as compared with the corresponding period in 2021 (2021: 3.3%).

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 2022 amounted to HK$145.2 million, representing an increase of 53.5% as compared with the corresponding period in 2021 (six months ended 30 June 2021: HK$94.6 million).

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 estimated expenses in connection with the Listing.

The Group has utilised approximately HK$173.8 million of the net proceeds as at 30 June 2022 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 during six months ended 30 June 2022** *(in HK$ million)*	**Utilised as at 30 June 2022** *(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	(2.1)	(9.2)	32.0	Expected to be fully utilised on or before 31 December 2023
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	0.0	(61.7)	0.0	–
6.	General working capital	20.5	0.0	(20.5)	0.0	–
		205.8	(2.1)	(173.8)	32.0	

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 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 2022, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK$938.5 million (31 December 2021: HK$711.8 million).

As at 30 June 2022, the outstanding bank and other borrowings of the Group was HK$1,552.7 million (31 December 2021: HK$1,638.1 million). The Group's gearing ratio, based on the interest-bearing borrowings, lease liabilities and total equity, decreased from 159.8% as at 31 December 2021 to 125.5% as at 30 June 2022 as a result of the decreased level of bank and other borrowings.

As at 30 June 2022, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK$3,483.6 million and HK$1,948.0 million (31 December 2021: HK$2,917.6 million and HK$1,427.7 million) respectively.

As at 30 June 2022, the Group had current assets of HK$3,645.9 million (31 December 2021: HK$3,387.4 million) and current liabilities of HK$2,606.5 million (31 December 2021: HK$2,571.4 million). The current ratio was 1.40 times as at 30 June 2022 (31 December 2021: 1.32 times).

The Group's debtor's turnover period was 63 days for the six months ended 30 June 2022 as compared to 54 days for the corresponding period in 2021. The overall debtors' turnover period was within the credit period.

The creditors' turnover period was 21 days for the six months ended 30 June 2022 as compared with 28 days for the corresponding period in 2021. Creditors' turnover period improved which was due to the more timely repayment of the amount due to our suppliers during current period.

The inventories' turnover period was 23 days for the six months ended 30 June 2022 as compared with 22 days for the corresponding period in 2021. The inventories' turnover period has been maintaining at a reasonable level.

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$16.7 million during the six months ended 30 June 2022 (six months ended 30 June 2021: net foreign exchange loss of approximately HK$2.0 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 2022, the financial assets at fair value through profit or loss ("**FVTPL**") amounted to HK$142.0 million (31 December 2021: HK$147.3 million), trade receivable factored amounted to HK$736.0 million (31 December 2021: HK$854.3 million) and bank deposits amounted to HK$424.8 million (31 December 2021: HK$420.8 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 2022.

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 2022.

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 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER 30 JUNE 2022

Up to the date of this announcement, the Group has no significant subsequent event after 30 June 2022 which requires 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 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 Listing Rules as its own code of corporate governance. Except for code provision C.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 2022. 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 C.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 C.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 2022.

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 interim results of the Group for the six months ended 30 June 2022 (the "**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 2022 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 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.