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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 2022**

**FINANCIAL HIGHLIGHTS**

- The total revenue of the Group for the year ended 31 December 2022 amounted to HK\$10,006.1 million (2021: HK\$10,389.3 million), representing a decrease of 3.7% as compared with the year ended 31 December 2021.
- The gross profit of the Group amounted to HK\$1,094.7 million for the year ended 31 December 2022 (2021: HK\$990.0 million), representing an increase of 10.6% as compared with the year ended 31 December 2021.
- The net profit attributable to the owners of the Company for the year ended 31 December 2022 amounted to HK\$164.7 million (2021: HK\$214.1 million), representing a decrease of 23.1% as compared with the year ended 31 December 2021.
- Basic and diluted earnings per share of the Company for the year ended 31 December 2022 were HK34.03 cents (2021: HK43.82 cents) and HK33.89 cents (2021: N/A) respectively.
- The Board resolved to recommend a final dividend of HK6 cents per share of the Company for the year ended 31 December 2022 (2021: HK8 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 2022 (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 2022

	NOTES	Year ended 31 December	
		2022 HK\$'000	2021 HK\$'000
Revenue	3	<b>10,006,078</b>	10,389,312
Cost of sales		<b>(8,911,337)</b>	(9,399,359)
Gross profit		<b>1,094,741</b>	989,953
Other income		<b>21,289</b>	11,374
Other gains or (losses), net		<b>(44,142)</b>	2,229
Impairment losses reversed (recognised) under expected credit loss model, net		<b>30,305</b>	(18,911)
Research and development expenses		<b>(39,562)</b>	(40,172)
Administrative expenses		<b>(144,732)</b>	(113,604)
Selling and distribution expenses		<b>(380,454)</b>	(300,642)
Share of result of an associate		<b>32</b>	(4,837)
Finance costs		<b>(79,179)</b>	(53,769)
Profit before tax		<b>458,298</b>	471,621
Income tax expenses	5	<b>(78,553)</b>	(79,720)
Profit for the year	6	<b>379,745</b>	391,901
<b>Other comprehensive (expense) income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<b>(10,824)</b>	2,188
Share of other comprehensive (expense) income of an associate		<b>(2,022)</b>	635
Total comprehensive income for the year		<b>366,899</b>	394,724

		<b>Year ended 31 December</b>	
		<b>2022</b>	<b>2021</b>
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year attributable to:			
Owners of the Company		<b>164,736</b>	214,061
Non-controlling interests		<b>215,009</b>	177,840
		<u><b>379,745</b></u>	<u>391,901</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		<b>152,119</b>	216,885
Non-controlling interests		<b>214,780</b>	177,839
		<u><b>366,899</b></u>	<u>394,724</u>
Earnings per share	8		
Basic (HK cents)		<b>34.03</b>	43.82
Diluted (HK cents)		<b>33.89</b>	N/A

## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Statement of Financial Position

At 31 December 2022

		As at 31 December 2022	As at 31 December 2021
	NOTES	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		15,118	8,408
Right-of-use assets		21,728	26,689
Goodwill		29,894	9,735
Intangible asset		9,888	4,384
Club debentures		5,932	5,433
Financial assets at fair value through profit or loss		157,547	152,149
Investment in an associate		30,668	33,293
Deposits		2,376	2,543
Deferred tax asset		5,882	9,011
		<u>279,033</u>	<u>251,645</u>
<b>CURRENT ASSETS</b>			
Inventories		288,388	606,026
Trade and bills receivables	9	1,212,520	1,984,625
Amount due from an associate		118	–
Deposits, prepayments and other receivables		129,114	84,954
Pledged bank deposits		457,286	420,830
Cash and cash equivalents		494,405	290,931
		<u>2,581,831</u>	<u>3,387,366</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	10	350,674	536,103
Other payables and accrued charges		167,130	272,945
Lease liabilities		14,100	13,705
Contract liabilities		33,575	33,895
Amounts due to non-controlling shareholder of a subsidiary		33,053	4,363
Tax liabilities		21,917	81,829
Bank and other borrowings	11	1,025,519	1,628,565
		<u>1,645,968</u>	<u>2,571,405</u>
<b>NET CURRENT ASSETS</b>		<u>935,863</u>	<u>815,961</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,214,896</u>	<u>1,067,606</u>

		<b>As at 31 December 2022</b>	As at 31 December 2021
	<i>NOTES</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liability		329	724
Lease liabilities		8,937	14,440
Bank and other borrowings	<i>11</i>	4,707	9,567
		<u>13,973</u>	<u>24,731</u>
<b>NET ASSETS</b>		<u><b>1,200,923</b></u>	<u>1,042,875</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		38	38
Reserves		873,328	805,949
Equity attributable to owners of the Company		873,366	805,987
Non-controlling interests		327,557	236,888
<b>TOTAL EQUITY</b>		<u><b>1,200,923</b></u>	<u>1,042,875</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, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (“**Stock Exchange**”). Its parent is Smart IC Limited, a private company incorporated in the British Virgin Islands and its ultimate controlling party is Mr. Tian Weidong (“**Mr. Tian**”). The 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 Group’s annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

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

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.

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

The Group has applied the amendments for the first time in the current year. The annual improvements 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.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged as at the date of initial application, 1 January 2022.

### *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 year has had no impact on the Group’s consolidated financial statements.

## **3. REVENUE**

### **(i) Disaggregation of revenue from contracts with customers**

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
<b>Types of goods or service</b>		
Sale of electronic components	<u>10,006,078</u>	<u>10,389,312</u>
<b>Timing of revenue recognition</b>		
A point in time	<u>10,006,078</u>	<u>10,389,312</u>
<b>Sales channel/product lines</b>		
<i>Authorised distribution</i>		
Optoelectronic displays	1,080,031	1,860,011
Memory products	301,608	513,578
Communication products	683,334	672,731
Smart vision	1,428,147	1,344,174
Smart display	2,899,524	2,776,541
Integrated products	266,953	151,334
Others ( <i>Note</i> )	<u>231,822</u>	<u>209,733</u>
	<b>6,891,419</b>	7,528,102
<i>Independent distribution</i>	<u>3,114,659</u>	<u>2,861,210</u>
	<u><b>10,006,078</b></u>	<u>10,389,312</u>

*Note:* Others mainly comprising the sales of optoelectronic products.

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

During the year ended 31 December 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 terminals have been regrouped as smart display and majority of security monitoring and other product lines have been re-grouped as smart vision during the current year. The comparative figures have been restated and represented in order to conform to the disclosure of current year.

**(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.

As at 31 December 2022 and 2021, 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 2022

	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>
<b>SEGMENT REVENUE</b>					
Revenue from external customers	6,891,419	3,114,659	10,006,078	-	10,006,078
Inter-segment sales*	39,058	58,239	97,297	(97,297)	-
	<u>6,930,477</u>	<u>3,172,898</u>	<u>10,103,375</u>	<u>(97,297)</u>	<u>10,006,078</u>
Segment profit	<u>89,051</u>	<u>299,469</u>	<u>388,520</u>	<u>-</u>	<u>388,520</u>
* Inter-segment sales are charged at cost					
Less: Unallocated expenses					(5,369)
Fair value loss on financial assets at FVTPL					(3,438)
Share of result of an associate					<u>32</u>
Profit for the year					<u>379,745</u>

**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>
<b>SEGMENT REVENUE</b>					
Revenue from external customers	7,528,102	2,861,210	10,389,312	–	10,389,312
Inter-segment sales*	<u>37,229</u>	<u>11,263</u>	<u>48,492</u>	<u>(48,492)</u>	<u>–</u>
	<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 expenses					(8,726)
Fair value loss 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>391,901</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 loss 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 PRC, Singapore and Japan.

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*

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong	7,323,814	8,336,444
The PRC	1,906,177	1,807,406
Singapore	584,600	240,101
Japan	161,527	2,080
Others	29,960	3,281
	<u>10,006,078</u>	<u>10,389,312</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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer 1	1,302,755	1,086,726
Customer 2	1,074,323	1,142,950

## 5. INCOME TAX EXPENSES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	56,084	68,511
PRC Enterprise Income Tax ("PRC EIT")	6,384	8,763
Singapore Corporate Tax ("CIT")	13,351	6,148
	<u>75,819</u>	<u>83,422</u>
Deferred tax	2,734	(3,702)
	<u>78,553</u>	<u>79,720</u>

## 6. PROFIT FOR THE YEAR

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' emoluments	6,417	9,591
Staff costs		
Salaries and other allowances	178,495	111,122
Discretionary bonus	127,986	148,776
Retirement benefit scheme contributions	24,720	19,752
	<u>337,618</u>	<u>289,241</u>
Total staff costs		
	<u>337,618</u>	<u>289,241</u>
Allowance for inventories recognised (included in cost of sales)	62,705	12,360
Amortisation of an intangible asset (included in selling and distribution expenses)	2,392	2,392
Auditor's remuneration	3,027	2,100
Cost of inventories recognised as an expense	8,911,337	9,399,359
Depreciation of property, plant and equipment	3,449	2,207
Depreciation of right-of-use assets	14,729	12,689
	<u>14,729</u>	<u>12,689</u>

## 7. DIVIDENDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Dividends for ordinary shareholders of the Company recognised as distributions during the year		
2022 – Interim – HK4 cents (2021: 2021 interim dividend HK4 cents) per share	19,199	19,599
2021 – Final – HK8 cents (2021: 2020 final dividend HK4 cents) per share	38,944	19,547
	<u>58,143</u>	<u>39,146</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2022 of HK6 cents (2021: final dividend in respect of the year ended 31 December 2021 of HK8 cents) per ordinary share, in an aggregate amount of approximately HK\$29,321,000 (2021: HK\$38,944,000), 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Earnings</b>		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>164,736</u>	<u>214,061</u>
	2022	2021
<b>Number of ordinary shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	484,045,140	488,524,783
Effect of dilutive potential ordinary shares Restricted share units (the "RSUs")	<u>2,000,000</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>486,045,140</u>	<u>488,524,783</u>

For the years ended 31 December 2022 and 2021, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account of 15,850,000 (2021: 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, adjusted by 1,000,000 (2021: Nil) ordinary shares vested under the share award scheme of the Company.

## 9. TRADE AND BILLS RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	1,212,970	1,932,795
Less: allowance for credit losses	(23,172)	(53,348)
Bills receivables	23,278	105,344
Less: allowance for credit losses	<u>(556)</u>	<u>(166)</u>
	<u>1,212,520</u>	<u>1,984,625</u>

As at 1 January 2021, trade receivables from contracts with customers amounted to HK\$1,102,296,000.

The Group allows credit period of 0 days to 120 days (2021: 0 to 120 days) to its customers. The bills receivables have a general maturity period ranging from 30 to 180 days (2021: 30 to 180 days).

The following is an analysis of trade receivables by age, net of allowance for credit losses, presented based on dates of transferring control of the goods, and an analysis of bills receivables by age, net of allowance for credit losses, presented based on the bills issuance date, at the end of the reporting period:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables		
0 to 60 days	<b>823,528</b>	1,307,653
61 to 120 days	<b>321,450</b>	479,411
Over 120 days	<b>44,820</b>	92,383
	<b><u>1,189,798</u></b>	<u>1,879,447</u>
 Bills receivables		
0 to 60 days	<b><u>22,722</u></b>	<u>105,178</u>

#### 10. TRADE PAYABLES

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	<b><u>350,674</u></b>	<u>536,103</u>

The credit period for trade payables ranging from 0 to 60 days (2021: 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:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0–30 days	<b>269,729</b>	448,331
31–60 days	<b>19,174</b>	56,621
61–90 days	<b>36,670</b>	27,712
Over 90 days	<b><u>25,101</u></b>	<u>3,439</u>
	<b><u>350,674</u></b>	<u>536,103</u>

As at 31 December 2022, included in the trade payables is HK\$34,929,000 (2021: HK\$58,471,000), in which the Group issued bills to relevant creditors for settlement and remained outstanding at the end of the reporting period.

## 11. BANK AND OTHER BORROWINGS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Import and export loans	464,411	747,803
Other bank borrowings	<u>556,801</u>	<u>890,329</u>
	<b>1,021,212</b>	1,638,132
Other borrowings	<u>9,014</u>	<u>–</u>
	<b><u>1,030,226</u></b>	<b><u>1,638,132</u></b>
Analysed as:		
Secured	1,010,734	1,631,917
Unsecured	<u>19,492</u>	<u>6,215</u>
	<b><u>1,030,226</u></b>	<b><u>1,638,132</u></b>
Carrying amounts of the above bank borrowings that do not contain a repayable on demand clause and are repayable:		
– within one year	52,513	3,438
– within a period of more than one year but not exceeding two years	3,052	5,858
– within a period of more than two years but not exceeding five years	<u>1,655</u>	<u>3,709</u>
	<b><u>57,220</u></b>	<b><u>13,005</u></b>
Carrying amounts of bank borrowings that contain a repayable on demand clause (shown under current liabilities) but are repayable*		
– within one year	<u>963,992</u>	<u>1,619,005</u>
Carrying amounts of other borrowings that contain a repayable on demand clause (shown under current liabilities) but are repayable*		
– within one year	<u>9,014</u>	<u>6,122</u>
	<b>1,030,226</b>	1,638,132
Less: Amount due within one year shown under current liabilities	<b><u>(1,025,519)</u></b>	<b><u>(1,628,565)</u></b>
Amount shown under non-current liabilities	<b><u>4,707</u></b>	<b><u>9,567</u></b>

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

Certain of the banking facilities contain various covenants which include the maintenance of certain financial ratios and restrictions on the maximum amounts due from a director and related companies and related parties transactions. The directors of the Company have reviewed the covenants compliance and represented that they were not aware of any breach during both years.

## **FINAL DIVIDEND**

The Board resolved to recommend a final dividend of HK6 cents per share of the Company for the year ended 31 December 2022 (2021: HK8 cents per Share) to the shareholders of the Company (the “**Shareholders**”) whose names appear on the register of members of the Company on Tuesday, 6 June 2023. Subject to the approval by the Shareholders at the forthcoming Annual General Meeting (as defined below) to be held on Thursday, 25 May 2023, the proposed final dividend is expected to be paid on or about Friday, 23 June 2023.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

In 2022, a series of problems including the COVID-19 pandemic, trade protectionism and geopolitics, negatively affected personal consumption and corporate investment around the globe, and economic recovery was fraught with difficulties. In January 2023, according to the World Economic Situation and Prospects 2023 released by the United Nations, the global economic growth rate in 2022 has been reduced from 3.3% as predicted in the previous period to 3%, which is far lower than the 5.7% growth rate in 2021.

Inflation in 2022 was universal in the world. The world average consumer price index increased by 8.8%, significantly higher than the 4.7% in 2021, reaching the highest global inflation level since the 21st century. Raising interest rate is a common response tool of all countries, which is to reduce inflation by curbing consumption and investment, which will inevitably lead to further weakening of market demand. The Fed announced on 1 February 2023 that it would raise interest rates by 25 basis points, raising the target range of the federal funds rate to between 4.50% and 4.75%. The rise of indirect financing costs throughout 2022 also affected the profitability of enterprises to a large extent.

Affected by the slowdown in global consumption demand, the consumer electronics industry is the first to bear the brunt. According to the statistics of Canalys, Gartner and other research institutions, the global smartphone shipments in 2022 were less than 1.2 billion, representing a year-on-year decrease of 12%. The shipments of tablets were 162.1 million, also representing a year-on-year decrease of 12%. PC shipments totaled 286.2 million, representing a year-on-year decrease of 16.2%. The shipments of TV sets were 202 million, representing a year-on-year decrease of 3.9% and the lowest level in the past decade, and the consumer electronic market went into a depression in 2022.



According to the Semiconductor Industry Association (SIA), of the more than US\$500 billion in semiconductor chips produced annually worldwide, approximately 31.5% is used in the production of PC products, 30.7% is used in the production of communication products and 12.3% is used in the production of consumer electronics such as home appliances, making a total of 74.5%. Global inflation has brought a significant overall decline in demand for consumer electronics, constraining semiconductor chip shipments in 2022. The latest statistics released by the SIA in February showed that global semiconductor sales in 2022 increased by only 3.2% year-on-year to US\$573.5 billion, well below previous industry expectations.

In view of the quarterly decline in market demand in 2022, Smart-Core Holdings has prudently considered the prevailing conditions and leveraged its strengths as an all-round distributor to overcome the difficulties arising from the decline in market demand. The Group's authorised distribution business has steadily served its existing customer base while vigorously exploring new product lines with growth prospects. In addition, the Group's independent distribution business is keeping pace with the trends of changing supply and demand in the industry and continues to benefit from its advantages in information channels and management levels. Our value-added technology business, in the form of turnkey solutions and BOM list deliveries, has accumulated a considerable number of design-wins; and the e-commerce platform has been upgraded to improve overall operational efficiency. The Group achieved accumulated sales of HK\$10,006.1 million in 2022, representing a slight decrease of 3.7% year-on-year, and gross profit of 1,094.7 million, representing an increase of 10.6% year-on-year.

For the specific business segments, in terms of authorised distribution business, the smart display business unit remained stable, the optoelectronic display and memory products business unit experienced a significant decline in performance, the smart vision and communication products business unit showed a modest increase in performance and the integrated product business unit achieved significant growth but with a relatively small share of sales. Independent distribution business maintained a higher growth and the independent business accounted for one-third of the Group's total revenue. Our technology value-added business and e-commerce business unit are still under expansion and have not yet achieved profitability, and our invested optical communication device and semi-conductor business unit has already reached break even after starting high volume shipments in 2022. Overall, the Group's business segmentation and overall operating conditions have improved with more balanced business development. A review of the Group's business in each of its major breakdown segments is set out below.

## **Smart Displays**

The smart display business, accounted for nearly 30% of the Group's total revenue, is one of important pillars of the Group's authorized distribution business. According to the report issued by TrendForce, even with the World Cup held in the second half of 2022, the global TV shipments decreased by 2.7% year-on-year to only 109 million units in the second half due to the declining demand, and the shipments for the year decreased by 3.9% year-on-year to 202 million units, hitting the lowest level in the past ten years. As many TV brand owners had high inventories in the first half of 2022 due to lower-than-expected sales volume, they therefore shrank their production plans for the second half, resulting in a lack of willingness to take delivery of chips during that period. But in certain sub-sectors of the industry, there are some incremental opportunities. According to the report issued by AVC (奧維雲網), in the first ten months of 2022, the shipments of home smart projectors quickly reached 5.94 million units, representing a significant increase of 51% year-on-year, and the sales of laser projectors reached 0.29 million units, representing a significant increase of 214% year-on-year, both of which are the key business areas we focus on. In summary, this business unit achieved aggregate sales of HK\$2,899.5 million in 2022, representing a modest increase of 4.4% year-on-year.

## **Optoelectronic Displays**

Unlike smart display business unit, the optoelectronic display business mainly focuses on the sales of related chips for the fields such as display, notebook screen driver, touch screen, TDDI chips for mobile phone, commercial display and power supply. According to statistics from several market research firms, the sales of smartphones and tablets declined by about 12%, the PC market plummeted by 16.2%, and the laptop market even significantly declined by 22.8% in 2022 due to the sluggish demand for electronic products worldwide in 2022. The sluggish market has greatly affected the chip shipments of Tcon, Driver, Power, Scaler and CMOS image sensor within this business unit. Therefore, the performance of this business unit experienced a significant decline in 2022, with an aggregate sales of HK\$1,080.0 million, representing a significant decrease of 41.9% year-on-year.

## **Smart Vision**

According to data released by research firm RUNTO, camera devices became the largest category in China due to its share of nearly 50% in China's annual security market of RMB700 billion. Cameras can be subdivided into city-level, industry-level and consumer-level according to different application scenarios. In which, the shipments of consumer products for home security and household care were about 18.7 million units in 2022, with a market share of nearly 80%. In 2022, the industry was significantly affected by factors such as the pandemic, rising price of raw materials and supply chain instability, resulting in a decline of market prosperity compared to 2021. But even so, this business unit actively explored new product lines, application scenarios and customer segments, and made certain achievements with an aggregate sales of HK\$1,428.1 million for the year, representing a modest increase of 6.2% year-on-year.

## **Communication Products**

This business unit mainly sells MCP memory chips, radio frequency PA chips and other electronic components for cellular IoT modules. In August 2022, the number of mobile IoT connections in China exceeded that of mobile phone users for the first time, officially becoming the first country among the world's major economies to achieve "IoT connections exceed the number of users (物超人)". According to the statistics from the Ministry of Industry and Information Technology, as of late September 2022, mobile IoT connections in China have accumulated to 1.75 billion, representing an increase of 350 million compared to the beginning of 2022 and accounting for more than 70% of the total number of global mobile IoT connections. Meanwhile, it is also the leading market for cellular IoT chips and modules around the world. In terms of application, NB-IoT has currently realised tens-of-millions-level applications in four aspects including water meters, gas meters, smoke senses and tracking, and also million-level applications in seven aspects including white goods, parking lots, agriculture and others. Benefiting from the rapid growth of the market in recent years, this business unit achieved cumulative sales of HK\$683.3 million in 2022, a slight year-on-year increase of 1.6%.

## **Memory Products**

Since the second half of 2021, the market demand for PCs, laptops, tablets, smartphones and other products showed continuous weakness, and such electronic products absorb more than half of the production capacity of memory chips. Therefore, the decrease in the shipment of such electronic products directly resulted in a serious oversupply of memory chips, thereby the downward trend for the price and shipment of memory chips. As of the end of 2022, the price of memory chips has been halved from the peak. The performance of several leading companies of memory chips has fallen sharply. The poor environment of memory product market also directly affected the sales performance of this business unit, which achieved cumulative sales of HK\$301.6 million in 2022, representing a significant year-on-year decrease of 41.3%.

## **Integrated Products**

The integrated product segment includes AIoT product group, MCU product group, CE product group and software product group. Among them, the AIoT product group mainly focuses on WLAN, LPWAN, Bluetooth Low Energy (BLE), 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 IoT, smart hardware and software service market in recent years, the business expansion of this business unit has also achieved remarkable results with WLAN and BLE IoT business experienced rapid growth and consumer market business maintained stable growth. This business unit achieved cumulative sales of HK\$267.0 million in 2022, representing a significant year-on-year increase of 76.4%.

## **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. Due to the severe inflation and recession expectations facing the global economy in 2022, 5G construction has slowed down, and the sales of optical modules for wireless access have continued to decline, which has restricted the sales of optical devices and modules in this business unit, while new technology solutions and chips are still being promoted, requiring breakthroughs in applications, thus have not yet been able to form performance output during 2022. As a result, this business unit record cumulative sales of HK\$93.7 million in 2022, representing a year-on-year decrease of 18.8%.

## **Independent distribution**

In 2022, the Group's independent distribution business continued to perform relatively well. Although affected by lower demand for in-stock chips during the year due to a decline in demand in the domestic market, sales in the domestic market remained stable throughout the year by the expansion of business scale and the improvement of business efficiency. The business unit made breakthroughs in overseas markets such as Asia Pacific, Europe and the United States, which achieved incremental results. Benefiting from the rapid growth in overseas markets, the overall results of the independent distribution business unit continued to grow significantly. In particular, independent distribution business achieved cumulative sales of HK\$3,114.7 million in 2022, representing a significant year-on-year increase of 8.9%.

## **OUTLOOK FOR 2023**

In the World Economic Situation and Prospects 2023 released by the United Nations in January, it concluded that the economy slowdown will spread to developing countries in 2023 as the adverse effect of recession looms over the global economy. With the rising inflation rate, increasing debt vulnerability and global economy downturn, many countries will expose to the risk of recession in 2023. The United Nations has lowered the global economic growth from 3% in 2022 to 1.9% in 2023. In the past few months, in addition to the United Nations, a number of international organizations, financial institutions and multinational banks have also conducted an outlook forecast for the global economy in 2023. In their opinion, the global economic growth rate ranging from 1.4% to 2.8%, with an average of 2.1%. Meanwhile, in the United Nations' report, China's economic growth for 2023 is given a positive comment, which it is expected to accelerate in 2023 with an estimated growth rate of 4.8% due to the optimisation of pandemic prevention policies and the adoption of favorable economic measures in China. Hence, China's economy will have a high expectation in 2023. Furthermore, we believe that China's economic growth is expected to recover with the gradual implementation of a series of macroeconomic policies. Meanwhile, the increasing domestic demand will become an essential factor for facilitating the economic recovery in China.

As the semiconductor chip industry was highly correlated with the global economic growth and the extent of impact of the global economy on the industry tends to be magnified, coupled with the supply changes brought by the production expansion in the semiconductor industry, various industry research institutions are not optimistic about the growth rate of the global semiconductor market in 2023. We have collected six-month forecasts from seven industry research institutions on the growth rate of the global semiconductor industry in 2023. According to these forecasts, the average is -6.9%, and even after deducting the extremely pessimistic data, the average is around -4.6%. Industry insiders generally believe that the global semiconductor market will hit a trough in the first half of 2023, with a recovery expected in the second half and a chance to resume growth in 2024. IDC analysts believe that the global semiconductor industry will grow at a compounded rate of 5% over the next 5-7 years in the long term, with growth rates for automotive and industrial semiconductors outperforming the industry average.

As a leading all-round distributor of electronic components in China, the Group has aggressively invested in business diversification and overseas markets over the years, which has significantly enhanced our business resilience to risks. Certain fostered new business lines have started to grow rapidly and generate revenue. Looking forward to 2023, the Group will encounter more challenges in operating amidst the severe global economic environment. Specifically, for each business line of the Group, the outlook is as follows:

### **Smart Displays**

Display panels are the core component of television products and account for a high proportion of the cost of the TV in complete set. Therefore, the expected changes in panel shipment data can usually be viewed as a leading indicator of the smart display business. According to TrendForce, global TV panel shipments are expected to decline slightly by 2.8% year-over-year in 2023. The easing of TV panel supply is conducive to keeping panel prices low, which can reduce the cost pressure on OEMs and help them boost sales. TrendForce expects global TV shipments to decline further by 1.4% to 199 million units in 2023.

According to the investigation of TrendForce, in the first quarter of 2023, due to the off-season effects, global TV shipments significantly decreased by 24.3%, representing a nearly ten-year low. The shipments of Chinese brands were also expected to decline by 30.6% for the first quarter. Sigmaintell, another research institution, considered that North America and Southeast Asia markets were likely to record a year-on-year increase in 2023 with the support of economic growth, while other regions were unlikely to recover as affected by the weak economy. In conclusion, we are cautious about the performance of this business segment in 2023.

## **Optoelectronic Displays**

According to a report by market research firm Gartner, the end-user spending on devices, such as PCs, tablets, and smartphones, is predicted to reduce by 5.1% in 2023 as a result of inflation and interest rate increases. This estimated decline will continue the 4.4% decline in global device shipments to 1.7 billion units in 2023, albeit at a slower rate than the 11.9% decline in 2022. Mobile phone shipments are anticipated to decline by 4%, while PC shipments, with the largest decline of all devices, are anticipated to shrink by 6.8% in 2023. The industry's high inventory levels in 2022 are anticipated to revert to normal in the second half of 2023. Also, according to research firm IDC, 2023 will see the lowest level of PC and notebook shipments in recent years, with the notebook market likely to start growing again in the second half of 2023.

For the China market, IDC predicts that the PC market shipping volume for the entire year of 2023 will be the same as that of 2022, with the PC procurement demand of major companies expanding by 3.7% year-on-year in the second half of the year for the China market as a result of the progressive policy adjustments and economic recovery. In 2024, the market is anticipated to rebound alongside an improvement in the global economy.

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. Due to the uncertainty in the market, the business segment will need to continue to develop new product lines and customer services in 2023, as well as capitalise on opportunities in popular product areas such as gaming notebook displays, to achieve its performance targets.

## **Smart Vision**

The product line of this business unit covers the whole chain of smart vision from collection to transmission, storage, display and control (採 — 傳 — 存 — 顯 — 控). In particular, “collection” refers to collecting video and images, while “transmission” refers to the wire or wireless transmission of signals as required, “storage” refers to our own NVR storage solutions and chip products, “display” refers to our various dot-matrix displays and smart display chips that may be applied in various scenarios, and “control” means our different motor driver chips which can realize the zooming and holder rotation of the camera. According to RUNTO's forecast, the market size of consumer cameras in China will reach 51.2 million units in 2023, a year-on-year increase of 8.5%, representing a promising market potential.

The chips and technical solutions of this business unit can be widely used in such fields as security, smart home, automotive electronics and so on. In field of security, according to the statistics and forecast data issued by Frost & Sullivan, the market sizes of global security video surveillance equipment, global IPC SoC chips and the NVR SoC chips will increase by 6.8%, 12.8% and 7.8% year-on-year to USD25 billion, USD740 million and USD97 million in 2023, respectively. In field of smart home, China has become the largest market of smart home consumption, accounting for 50–60% of the global market. The building intercom and control solution in this business unit have promising market potential. In terms of dashboard cameras, China produced and consumed the most vehicles dashboard cameras with market shares of nearly 42% and 30%, respectively. The prospect of the market is promising.

To sum up, the market of this business unit is relatively stable and active with a rather clear growing trend in the next few years. Moreover, the improving fundamental economy and policy supports in domestic market will also contribute to its development in 2023. Thus, this business unit is expected to maintain its satisfactory growing trend in 2023.

### **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 an average compound annual growth rate of 12%, and will be mainly used in smart meters, industrial, routers, automotive and POS.

Currently, a large number of cellular IoT module shipments in the market are mainly based on NB-IoT, 4G Cat.1 and 4G Cat.4, and the aggregate market share is expected to account for more than 60% of total shipments. In the future, the medium and ultra-high speed cellular IoT application scenarios will be gradually switched to 5G NR. The current Red Cap research project based on 3GPP R17 can better solve the problems of energy consumption and cost performance in medium and high-speed application scenarios. The 5G Red Cap is expected to be commercially available in 2023, and the module is mainly used in video surveillance, industrial sensing, wearable devices and smart grid.

This business unit mainly provides small-capacity MCP memory chips and 4G/5G radio frequency PA for cellular IoT module manufacturers, of which 5G radio frequency PA have already formed scale sales in 2022 and is expected to bring new incremental results in 2023. At the same time, this business unit is actively promoting the market application of various types of IoT modules. Looking ahead to 2023, this business unit is expected to maintain a relatively rapid growth and achieve its scheduled full-year business goals.

## **Memory Products**

Memory chip DRAM and Nand flash memory are mainly used in devices such as PCs, tablets, smartphones and smart televisions, as the demand for these devices will continue to decline in 2023, which will inevitably lead to a subsequent decline in chip shipments. Some mainstream suppliers will balance the market demand by cutting production capacity. According to WSTS forecast, the global memory chip market size will also decline by 17% in 2023.

Although the overall situation of the memory chip market is not optimistic, but the recent price decline has been eased. According to the research of TrendForce, the price of Nand flash memory will fall to between 10–15% in the first quarter of 2023, and the industry generally believes that there is still a possibility that prices of memory chips will test a low in the second quarter of this year. However, with the recovery of the global economy, the demand of the downstream consumer electronics market will gradually recover, and the industry is expected to step into the upward channel of volume and price by 2024 at the latest. From the current situation, there are many uncertainties in the supply and demand situation of the memory chip market in 2023, which will bring difficulties to achieve the full-year business goals. Therefore, in 2023, we need to actively look for new growth areas in the industry, such as AI applications and data centers, while preparing our product lines, teams and customer base for the growth dividends that will come from the industry's recovery.

## **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. With expected enhancement of economic recovery embraced by China in 2023, infrastructure with focus on 5G and AI is expected to accelerate.

With a massive hit of ChatGPT causing multiple software downtimes in 2023, Microsoft, Google and Baidu have announced plans to integrate AI models into their search services, further broadening market application. However, the training and application of AI have increased considerable demand for computing power of data centers. A recent survey report released by DataCenterHawk indicates the average vacancy rate of data centers in primary markets of North America is 4.4%, the lowest level ever recorded. Under such expected increase, optical modules, the most flexible module as for demand in cloud computing, are also likely to see a rise in demand or may embrace market demand more than expected. At present, the mainstream application rate of optical modules will increase from 10–40Gbps to 100–400Gbps, while the most advanced products have already upgraded to 800Gbps. Given the high requirement for computing power from ChatGPT, the high-end products of 800Gbps may even emerge as the largest source of orders in incremental market.



This business unit has promoted solutions to industry customers in 2022, including the solutions of 400G/800G silicon optical integration module for data centers, the solutions of next generation of 50G PON for FTTX and the solutions of coherent sink optical module. Of which, the silicon optical integration solutions include 100G DR1, 400G DR4 and 800G DR8 silicon optical integration solutions, which are mainly applied in next generation of data centers. However, 50G PON solutions will replace the current 10G PON products to become the mainstream of the next generation. With the new requirement for computing power of data centers from AI applications, this business unit is expected to see a new profit point in 2023. We will closely monitor developments in this industry and actively capture new business opportunities to achieve growth in 2023.

### **Integrated Products**

The Internet of Things (IoT) is a system of connected devices, digital machines and users, with unique identifiers and network transportability and dispensing with human-human or human-machine interaction. Over the past few years, its value and potential have been gradually recognized, as such the market scale of IoT is expected to boom in the next few years. According to forecast data from Markets and Markets Research, the global IoT market will reach US\$650.5 billion in 2026, with an average compound annual growth rate of 16.7% from 2021 to 2026.

MCU processor chip, as the core component of various electronic products, has a wide range of market demand. According to forecast data from ICInsight, the global MCU market will reach US\$24.3 billion by 2023. In the domestic market, IHS statistics show that China's MCU market will reach RMB42 billion in 2023, up 7.7% year on year.

In summary, this business unit gathers numerous new business directions and new product lines that are being developed by the Group. The business still maintained a fast growth rate in the downward cycle of the industry in 2022. We expect that with the recovery of market demand in 2023, this business unit is expected to maintain a good growth trend, achieving growth against trend.

### **Independent Distribution**

The business model of independent distribution is different from the conventional authorized distribution, and mainly includes "reverse supply chain" and "spot trade". Reverse supply chain assists downstream end manufacturers to address excess inventory and obsolete materials, while spot trade is to meet manufacturers' sudden incremental spot demand, the price of which is usually higher. In the semiconductor industry, the manufacturing cycle from wafer to product is relatively long and is slow to ramp up production capacity, as a result, there is a high demand for planning. When downstream suppliers along the industry chain confronted with a sudden increase in demand, it is easy to lead to fluctuations in the mismatch between supply and demand in the upstream, and then independent distribution business may obtain new trading opportunities.

Since the hot spots in the electronics industry are uneven and everchanging, the response speed of the supply chain can not match in a timely manner, there were still many hot segments of electronic components whose demand could not be met despite that the general demand of the electronics manufacturing industry declined and inventories were high in 2022. Supply chain imbalance will occur frequently in the future as the recovery of domestic demand for electronic products and the relocation of some low-end electronics manufacturing to emerging economies. Independent distribution, as an important business form of semiconductor supply chain, can better meet such incremental demand. In addition, opportunities in overseas markets are also important areas to focus on in 2023. In domestic market, we have accumulated a huge spot inventory of chips that the overseas markets lack in past years. In the past 2022, the Group has invested a lot of resources to develop overseas business for its independent distribution business, and actively expanded and improved the global business network to lay a solid foundation for business growth in 2023. We see 2023 as both a challenge and an opportunity for independent distribution.

## **Summary**

The decline in growth rate of global economy in 2023 becomes a consensus all over the industry, whilst there are still unknown crises and changes in 2023. However, we believe that the semiconductor industry has become a major engine to global economic development, as well as a core industry among major economies around the globe. We stand firm in support of the development of such industry in the future, despite that it might encounter some cyclical fluctuations in a short term. Therefore, each downturn of the semiconductor industry will breed new opportunities, and we should be ready to grasp the opportunities for development to successfully get through the downward cycle.

The Group has built up an “all-round” distribution business system leveraging on its years of development and comprehensive layout in authorized distribution, independent distribution, value-added technology, e-commerce platform, semiconductor design, manufacturing and testing, as well as continued construction of domestic and overseas business networks. This system has ensured the steady growth of the Group’s business in past years.

Moving forward, the Group will continue to consolidate and expand its authorized distribution business, and develop the scale of independent distribution business in conjunction with overseas market expansion and business data platform construction. We will deliver more valuable productization solutions so as to realize value output of value-added technology. Besides, we will also promote the construction and effective operation of the Group’s e-commerce platform by advancing the digital transformation to enhance operational efficiency. In terms of the semiconductor industry, we will increase our investment therein to improve the positioning of chip companies among the industry.

In the future, we will continue to strengthen the expansion of authorized distribution business, step up our efforts to develop global independent distribution business, and promote the development of the Group's technology value-added business and e-commerce platform business. In terms of semiconductor industry, the development of optical communication devices and the deployment of business will be intensified. Leveraging on the digital business foundation of the Group, we will strive to achieve diversified business development. In 2023, on the basis of sound operation and active innovation, we will enhance the quality and profitability of the Group's business, bringing better returns and long-term value to the Shareholders.

## **FINANCIAL REVIEW**

### **Revenue**

For the year ended 31 December 2022, the Group's revenue amounted to HK\$10,006.1 million (2021: HK\$10,389.3 million), representing a decrease of HK\$383.2 million (or 3.7%) as compared with the revenue for the year ended 31 December 2021.

The decrease in revenue was mainly caused by the decrease in the sales from our optoelectronic displays and memory products of approximately HK\$992.0 million.

### **Gross profit**

Our gross profit for the year ended 31 December 2022 increased by HK\$104.7 million to HK\$1,094.7 million as compared with the prior year (2021: HK\$990.0 million). Our gross profit margin increased by 1.4 percentage points to 10.9% for the year ended 31 December 2022 (2021: 9.5%). 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 2022, research and development expenses amounted to HK\$39.6 million, decreased by 1.5% as compared with the year ended 31 December 2021 (2021: HK\$40.2 million).

## **Administrative and selling and distribution expenses**

Administrative and selling and distribution expenses aggregated to HK\$525.2 million for the year ended 31 December 2022 (2021: HK\$414.2 million), which accounted for 5.2% of the revenue for the year ended 31 December 2022 as compared with 4.0% over the corresponding year in 2021. The net increase of HK\$111.0 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 2022 amounted to HK\$79.2 million, an increase of HK\$25.4 million as compared with that in 2021 (2021: HK\$53.8 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 interest rates of bank borrowings during the year.

## **Share of result of an associate**

The Group had recorded a profit on share of result of an associate for the year ended 31 December 2022 of approximately HK\$0.03 million (2021: loss of HK\$4.8 million). The profit was mainly due to the amount of sharing of result of an associate, namely Galasemi (Shanghai) Co. Ltd. (GSCL). The profit on share of result of an associate is mainly due to the improvement in company operation.

## **Profit for the year**

For the year ended 31 December 2022, the Group's profits amounted to HK\$379.7 million, representing a decrease of HK\$12.2 million as compared to HK\$391.9 million in 2021, representing a decrease of 3.1%. The net profit margin for the year ended 31 December 2022 was 3.8%, which remained the same as to the year ended 31 December 2021. The decrease in the profit for the year was mainly contributed by the increase in administrative and selling and distribution expenses and net foreign exchange loss offsetting by impairment losses reversed under expected credit loss model for the year.

## **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 2022 amounted to HK\$164.7 million, representing a decrease of 23.1% as compared with the year ended 31 December 2021 (2021: HK\$214.1 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 2022, the Group had utilised HK\$7.8 million of the net proceeds from the Listing. The Group has utilised approximately HK\$179.5 million of the net proceeds as at 31 December 2022 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\$26.3 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 2022 (in HK\$ million)	Utilised as at 31 December 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	(7.8)	(14.9)	26.3	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	–
	<u>205.8</u>	<u>(7.8)</u>	<u>(179.5)</u>	<u>26.3</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 2022, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK\$951.7 million (31 December 2021: HK\$711.8 million).

As at 31 December 2022, the outstanding bank borrowings of the Group were HK\$1,030.2 million (31 December 2021: HK\$1,638.1 million). The Group's gearing ratio, which is calculated by the interest-bearing borrowings divided by total equity, decreased from 159.8% as at 31 December 2021 to 87.7% as at 31 December 2022 as a result of the decrease in bank borrowings.

As at 31 December 2022, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK\$3,097.9 million and HK\$2,067.6 million (31 December 2021: HK\$2,917.6 million and HK\$1,427.7 million) respectively.

As at 31 December 2022, the Group had current assets of HK\$2,581.8 million (31 December 2021: HK\$3,387.4 million) and current liabilities of HK\$1,646.0 million (31 December 2021: HK\$2,571.4 million). The current ratio was 1.57 times as at 31 December 2022 (31 December 2021: 1.32 times). The decrease in current assets is primarily due to the decrease in inventories and trade receivables as compared with 31 December 2021.

The Group's debtors' turnover period was 58 days for the year ended 31 December 2022 as compared to 54 days for the year ended 31 December 2021. The overall debtors' turnover period was within the credit period. The increase in debtors' turnover period was due to the delay in payments from certain of our small and medium enterprises customers which more affected by the change in the economic environment.

The creditors' turnover period was 18 days for the year ended 31 December 2022 as compared with 22 days for the year ended 31 December 2021. The creditors' turnover period improved which was due to the timely repayment of the amounts due to our suppliers during the current period.

The inventories' turnover period was 18 days for the year ended 31 December 2022 as compared with 20 days for the year ended 31 December 2021. Inventory control was always one of the primary tasks of the Group's management team to maintain the liquidity and healthy financial position of the Group. Inventories' turnover period remained relatively stable in both years.

### **Foreign currency exposure**

The Group's transactions are principally denominated in US dollars and Renminbi. The Group had not experienced any material difficulties or material adverse impacts on its operation despite the fluctuations in currency exchange rates and the net foreign exchange loss of approximately HK\$41.0 million for the year ended 31 December 2022 (31 December 2021: net foreign exchange gain of HK\$0.8 million). As 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 2022, the financial assets at fair value through profit or loss (the "FVTPL") amounted to HK\$153.0 million (31 December 2021: HK\$147.3 million), trade receivable factored amounted to HK\$338.8 million (31 December 2021: HK\$854.3 million) and bank deposits amounted to HK\$457.3 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 during the years ended 31 December 2022 and 2021.

### **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 2022 and 2021.

### **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 2022.

## Employees

As at 31 December 2022, the Group had 579 employees (31 December 2021: 570 employees), with a majority based in Shenzhen, Suzhou and Hong Kong. Total employee cost for the year ended 31 December 2022, excluding the remuneration of the Directors were approximately HK\$331.2 million (31 December 2021: HK\$279.7 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.

## EMPLOYEE INCENTIVE SCHEMES

On 19 September 2016, the Company adopted a Share Award Scheme and conditionally approved and adopted a Share Option Scheme.

During the year ended 31 December 2022, no new shares had been subscribed by the Trustee and a total of 15,600,000 shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme and a total of 3,000,000 share awards were granted to the employees by the Company pursuant to the Share Award Scheme and none of them have been cancelled or lapsed during the year. The Group recognised a total of HK\$2.6 million of share-based payment expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022 (2021: nil). No share option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme as at 31 December 2022. Further details of the Share Award Scheme and Share Option Scheme will be set out in the section headed “Employee Incentive Schemes” in the Company’s 2022 annual report to be issued in due course.



## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2022.

## **EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2022**

Up to the date of announcement, the Group has no significant subsequent event after 31 December 2022 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 C.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 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 during the year ended 31 December 2022.

## **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 2022 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 2022 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 2022 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 audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 24 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion 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](http://www.hkexnews.hk)) and the Company ([www.smart-core.com.hk](http://www.smart-core.com.hk)). The annual report of the Company for the year ended 31 December 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.

## **ANNUAL GENERAL MEETING**

The annual general meeting of the Company (the “**Annual General Meeting**”) will be held on Thursday, 25 May 2023. 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 Monday, 22 May 2023 to Thursday, 25 May 2023, 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 Friday, 19 May 2023.

For ascertaining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 7 June 2023 to Friday, 9 June 2023, 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 Tuesday, 6 June 2023.

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

Hong Kong, 24 March 2023

*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.*