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 2023

FINANCIAL HIGHLIGHTS

- Total revenue of the Group for the six months ended 30 June 2023 amounted to HK$3,184.6 million (2022: HK$5,661.5 million), representing a decrease of 43.7% as compared with the corresponding period in 2022.

- Gross profit of the Group for the six months ended 30 June 2023 amounted to HK$229.9 million (2022: HK$677.1 million), representing a decrease of 66.0% as compared with the corresponding period in 2022.

- Net profit attributable to the owners of the Company for the six months ended 30 June 2023 amounted to HK$12.7 million (2022: HK$145.2 million), representing a decrease of 91.3% as compared with the corresponding period in 2022.

- Basic and diluted earnings per share for the six months ended 30 June 2023 were HK2.68 cents (2022: HK29.78 cents) and HK2.67 cents (2022: HK29.66 cents) respectively.

- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: HK4 cents per share).

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 2023 (the "**Reporting Period**") with the comparative figures for the corresponding period in 2022. 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 2023

		Six months ended 30 June	
		2023	2022
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3A & 3B*	**3,184,637**	5,661,548
Cost of sales		**(2,954,761)**	(4,984,423)
Gross profit		**229,876**	677,125
Other income		**20,752**	4,733
Other gains or losses, net		**(4,498)**	(20,596)
Impairment losses (recognised) reversed under expected credit loss model, net		**(167)**	22,253
Research and development expenses		**(17,073)**	(20,215)
Administrative expenses		**(56,267)**	(69,746)
Selling and distribution expenses		**(110,422)**	(192,387)
Finance costs		**(31,554)**	(35,807)
Share of result of an associate		**(2,269)**	(3,327)
Profit before tax	*4*	**28,378**	362,033
Income tax expense	*5*	**(7,262)**	(62,267)
Profit for the period		**21,116**	299,766
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(6,741)**	(7,535)
Share of other comprehensive expense of an associate		**(1,345)**	(1,536)
Other comprehensive expense for the period		**(8,086)**	(9,071)
Total comprehensive income for the period		**13,030**	290,695

		Six months ended 30 June	
		2023	2022
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Profit for the period attributable to:			
Owners of the Company		**12,674**	145,230
Non-controlling interests		**8,442**	154,536
		21,116	299,766
Total comprehensive income for the period attributable to:			
Owners of the Company		**4,968**	136,262
Non-controlling interests		**8,062**	154,433
		13,030	290,695
Earnings per share:			
Basic (HK cents)	*7*	**2.68**	29.78
Diluted (HK cents)	*7*	**2.67**	29.66

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Financial Position

As at 30 June 2023

	NOTES	**30 June 2023** ***HK\$'000*** **(Unaudited)**	31 December 2022 *HK\$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**16,278**	15,118
Right-of-use assets		**15,490**	21,728
Goodwill		**29,894**	29,894
Intangible asset		**7,903**	9,888
Club debentures		**5,940**	5,932
Financial assets at fair value through profit or loss ("**FVTPL**")		**168,806**	157,547
Equity instrument at fair value through other comprehensive income ("**FVTOCI**")		**40,907**	–
Investment in an associate		**27,118**	30,668
Deposits, prepayments and other receivables		**2,270**	2,376
Deferred tax asset		**5,264**	5,882
		319,870	279,033
CURRENT ASSETS			
Inventories		**363,266**	288,388
Amount due from an associate		**–**	118
Trade and bills receivables	*8*	**1,104,969**	1,212,520
Deposits, prepayments and other receivables		**116,121**	129,114
Pledged bank deposits		**493,613**	457,286
Cash and cash equivalents		**425,463**	494,405
		2,503,432	2,581,831
CURRENT LIABILITIES			
Trade payables	*9*	**510,733**	350,674
Other payables and accrued charges		**96,432**	167,130
Lease liabilities		**12,136**	14,100
Contract liabilities		**40,155**	33,575
Amount due to an associate		**2,278**	–
Amounts due to non-controlling shareholders of a subsidiary		**–**	33,053
Tax liabilities		**1,006**	21,917
Bank and other borrowings	*10*	**993,236**	1,025,519
		1,655,976	1,645,968

	NOTES	30 June 2023 HK$'000 (Unaudited)	31 December 2022 HK$'000 (Audited)
NET CURRENT ASSETS		**847,456**	935,863
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,167,326**	1,214,896
NON-CURRENT LIABILITIES			
Deferred tax liability		**132**	329
Lease liabilities		**4,352**	8,937
Bank and other borrowings	*10*	**7,263**	4,707
		11,747	13,973
NET ASSETS		**1,155,579**	1,200,923
CAPITAL AND RESERVES			
Share capital		**38**	38
Reserves		**843,322**	873,328
Equity attributable to owners of the Company		**843,360**	873,366
Non-controlling interests		**312,219**	327,557
TOTAL EQUITY		**1,155,579**	1,200,923

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. BASIS OF PREPARATION

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 ("**Stock Exchange**").

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 2023 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2022.

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 Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

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.

2.1 Impacts on application of Amendments to HKAS 12 Income Taxes *International Tax Reform – Pillar Two Model Rules*

In July 2023, the HKICPA issued the amendments to HKAS 12 to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "**Pillar Two legislation**"). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately their current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is yet to apply the temporary exception during the current interim period because the Group's entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

3A. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Types of goods:		
Sale of electronic components	**3,184,637**	5,661,548
Sales channel/product lines:		
Authorised distribution		
Optoelectronic displays	**422,227**	685,945
Memory products	**43,614**	203,300
Communication products	**218,192**	434,097
Smart vision	**456,991**	621,240
Smart displays	**1,168,405**	1,516,228
Integrated products	**197,709**	107,016
Others *(Note)*	**140,869**	128,529
	2,648,007	3,696,355
Independent distribution	**536,630**	1,965,193
	3,184,637	5,661,548
Geographical markets:		
Hong Kong	**2,444,579**	4,149,635
The PRC	**652,901**	1,041,495
Singapore	**65,858**	370,661
Japan	**6,647**	82,710
Others	**14,652**	17,047
	3,184,637	5,661,548

Note: Others mainly comprising the sales of optoelectronic products.

Sale of electronic components is recognised at a point in 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 30 June 2023 and 2022, 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 2023 (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	**2,648,007**	**536,630**	**3,184,637**	**–**	**3,184,637**
Inter-segment sales*	**5,940**	**449**	**6,389**	**(6,389)**	**–**
	2,653,947	**537,079**	**3,191,026**	**(6,389)**	**3,184,637**
Segment profit (loss)	**24,609**	**(2,205)**	**22,404**	**–**	**22,404**

* Inter-segment sales are charged at cost

Less: Unallocated expenses	**(699)**
Fair value gain on financial assets at FVTPL	**1,680**
Share of result of an associate	**(2,269)**
Profit for the period	**21,116**

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 FVTPL	(4,144)
Share of result of an associate	(3,327)
Profit for the period	299,766

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 2022. Segment profit represents the profit earned by each segment without allocation of unallocated expenses, fair value gain/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	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Allowance for inventories (included in cost of sales)	**5,602**	22,138
Amortisation of an intangible asset (included in selling and distribution expenses)	**1,985**	1,195
Cost of inventories recognised as an expense	**2,954,761**	4,984,423
Depreciation of property, plant and equipment	**2,040**	1,565
Depreciation of right-of-use assets	**7,579**	6,955
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**78,426**	164,596
Retirement benefit scheme contributions	**13,373**	13,004

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**6,632**	43,318
The PRC Enterprise Income Tax ("**PRC EIT**")	**106**	1,445
Singapore Corporate Tax ("**CIT**")	**117**	14,026
Others	**124**	4
	6,979	58,793
Deferred tax	**283**	3,474
	7,262	62,267

6. DIVIDENDS

During the current interim period, a final dividend of HK6 cents per share in respect of the year ended 31 December 2022 (2022: HK8 cents per share in respect of the year ended 31 December 2021) 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$28,262,000 (2022: HK$39,094,000).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of nil (2022: HK4 cents) per share amounting to nil (2022: HK$19,547,000).

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	
	2023	2022
	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	**12,674**	145,230

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**472,827,991**	487,725,229
Effect of dilutive potential ordinary shares — Restricted share units (the "**RSUs**")	**1,500,000**	2,000,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**474,327,991**	489,725,229

For the six months ended 30 June 2023, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account of 18,400,000 (30 June 2022: 4,000,000) 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 AND BILLS 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 2023	31 December 2022
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables		
0–60 days	**848,199**	823,528
61–120 days	**238,776**	321,450
Over 120 days	**14,519**	44,820
	1,101,494	1,189,798
Bill receivables		
0–60 days	**3,475**	22,722

As at 30 June 2023, trade and bill receivables of HK$100,763,000 (31 December 2022: HK$338,769,000) and HK$3,475,000 (31 December 2022: HK$22,722,000) were further discounted to banks with full recourse, respectively and trade receivables of nil (31 December 2022: HK$6,945,000) were discounted to a financial institution will full recourse. The Group continues to recognise their full carrying amount at the end of reporting period and details are disclosed below.

9. TRADE PAYABLES

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

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

	30 June 2023	31 December 2022
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–30 days	**463,720**	269,729
31–60 days	**6,362**	19,174
61–90 days	**8,550**	36,670
Over 90 days	**32,101**	25,101
	510,733	350,674

10. BANK AND OTHER BORROWINGS

	30 June 2023	31 December 2022
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Import and export loans	**322,487**	464,411
Other bank borrowings	**678,012**	556,801
	1,000,499	1,021,212
Other borrowings	**–**	9,014
	1,000,499	1,030,226
Analysed as:		
Secured	**990,490**	1,010,734
Unsecured	**10,009**	19,492
	1,000,499	1,030,226
Carrying amounts of the above bank borrowings that do not contain a repayable on demand clause and are repayable:		
— within one year	**109,005**	52,513
— one to two years	**4,044**	3,052
— two to five years	**3,219**	1,655
	116,268	57,220
Carrying amounts of bank borrowings that contain a repayable on demand clause (shown under current liabilities) but are repayable*		
— within one year	**884,231**	963,992
Carrying amounts of other borrowings that contain a repayable on demand clause (shown under current liabilities) but are repayable*		
— within one year	**–**	9,014
	1,000,499	1,030,226
Less: Amount due within one year shown under current liabilities	**(993,236)**	(1,025,519)
Amount shown under non-current liabilities	**7,263**	4,707

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

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: HK4 cents per share).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2023, major economies in the world have gradually emerged from the haze of the pandemic, and the downward trend in the global economy has slowed down, with a fall-back inflation of Europe and the United States and a continued recovery in the global services sector, while the manufacturing industry and foreign trade-related industries around the world have underperformed and the economies of the export-oriented economies in the Asia-Pacific region have come under pressure. The recovery of the global economy has been hampered by the ongoing Russia-Ukraine conflict and by the dampening effect of inflation and continued interest rate hikes in major European and American countries against consumption and investment. According to a new edition of Economic Prospects released in June 2023, the World Bank upgraded the global economic growth rate in 2023 from 1.7% predicted at the beginning of the year to 2.1%, taking a prudent and optimistic view of global economic growth.

Having said the macro-economy will expect a growth in 2023, the semiconductor market is experiencing a bumpy year with a lingering slowdown in the electronics industry in the first half of 2023 due to the sluggish demand of global market, which imposed severe constraints on the development of the semiconductor industry. Therefore, the business of the Group was also deeply affected by the decline in the market demand for electronic products, with revenue declining significantly in the first half of 2023, as described below:

Smart Displays

This business unit mainly promotes and sells SoC chips for use in flat-panel TVs. Due to the decrease in shipment resulting from the declined market demand, coupled with the decline in the unit price of SoC chips with built-in DRAM due to the drop in the price of memory products, the sales of this business unit in the first half of 2023 fell short of expectations. The cumulative sales achieved in the first half of the year amounted to HK$1,168.4 million, representing a significant year-on-year decrease of 22.9%.

Optoelectronic Displays

Optoelectronic displays business mainly focuses on the marketing and sales of related chips for the fields such as display, notebook screen TCON, display driver chips, touch chips, CMOS image sensor for mobile phones and power supply. The sharp decline in end-market shipments led to a significant drop in manufacturers' demand for display chips, display driver chips and image sensors, which affected the fulfillment of our target for the performance of this business unit for the first half of the year. In the first half of the year, this business unit recorded an aggregate sales of HK$422.2 million, representing a significant decrease of 38.4% year-on-year.

Smart Vision

This business unit provides chips and technology solutions covering video collection, transmission, storage, display and control for application scenarios such as smart vision, anti-theft alarm, entrance control and community security. The shipment of security-related products fell sharply in the first half of 2023 and the unit price of SoC chips with built-in DRAM had been reduced as well. Therefore, even though this business unit maintained stable customer base and market share and chip shipments increased, the final sales performance slumped due to the reduction in the unit price of chips. In the first half of the year, this business unit recorded an aggregate sales of HK$457.0 million, representing a decrease of 26.4% year-on-year.

Communication Products

This business unit mainly provides small-capacity MCP memory chips and 4G/5G radio frequency PA to cellular IoT modules manufacturers. Additionally, we engage in the promotion and sale of cellular IoT modules. Affected by various factors such as the global economic landscape and market sentiment, the demand for cellular IoT modules in enterprise digital transformation and industrial projects continues to show sluggishness. The downstream demand in the cellular IoT industry has not yet fully recovered. The decline in IoT cellular module shipments had a direct impact on MCP memory chip and RF PA shipments. Combined with the continued decline in memory chip prices, the performance of this segment declined significantly. This business unit recorded an aggregate sales of HK$218.2 million in the first half of the year, representing a significant decrease of 49.7% year-on-year.

Memory Products

Mobile phones, tablets and computers represent the traditional top consumers of storage chips, shipments of which have declined rapidly since 2022 and continue to remain at the bottom of the downward trend. The lack of market demand, coupled with the increasing output of storage chips, have led to high inventories at chip manufacturers, chip supply sources and end factories, as well as a decline in the rate of innovation and iteration of new products, thereby having a greater impact on the business achievement of this segment. This business unit recorded an aggregate sales of HK$43.6 million in the first half of 2023, representing a significant decrease of 78.5% year-on-year.

Integrated Products

The integrated product segment is responsible for a range of new business units that the Company has been focusing on developing, including AIoT product group, MCU product group and CE product group. Among them, the AIoT product group mainly focuses on the Internet of Things market based on LPWAN, WLAN, Bluetooth Low Energy (BLE), 2.4G and other wireless interconnection technologies, the MCU product group focuses on expanding application opportunities in industrial control, automotive, and smart hardware sectors, the CE product group focuses on the consumer electronics market, and the software product group focuses on promoting the SaaS cloud services and software products. Due to our proactive exploration of new application areas and new product lines, we have achieved impressive results in the first half of 2023 with an aggregate sales reaching HK$197.7 million, representing a significant year-on-year growth of 84.7%.

Independent Distribution

In the first half of 2023, the overall global market demand for the electronic components dropped significantly with rising channel inventories had led to a buyer-driven market with supply outstripping demand. The achievement of the results of this business unit was impacted with an aggregate sales of HK$536.6 million in the first half of 2023, representing a year-on-year decrease of 72.7%.

OUTLOOK

Although the global economic trend in the first half of 2023 was slightly better than expected, continuing Russia-Ukraine conflict, the banking crisis in Europe and the U.S., and the U.S. debt crisis have triggered market concern about a global recession. After several rounds of interest rate hikes, the U.S. federal funds rate in July has reached the highest level in the past 22 years, and inflation levels in Europe and the U.S. have declined to varying degrees, but there is still a large gap from the 2% monetary policy target. Therefore, it is expected that the global liquidity and financing environment will continue to remain tight in the second half of the year, which will exert greater pressure on global investment and financing, consumer spending and economic growth.

With the development of global information technology and the advent of the digital economy era, the importance of the semiconductor industry to the development of the national economy has risen, and major economies are actively increasing their investment and competitiveness in the semiconductor field. At present, the United States, South Korea, Japan, Taiwan, China, Europe and Mainland China together account for 98% of the market share of the global semiconductor industry chain. Due to the many links involved in the semiconductor industry chain, different countries possess different advantages, among them, the United States, Japan and Europe are dominant in the fields of semiconductor equipment, materials and design, while China has a relatively large scale in the field of packaging and testing and product application. However, in order to enhance the advantages of local industries and control over key technologies, developed economies frequently adopt various restrictive measures, which may lead to in-depth adjustments in the division of labor in the global semiconductor industry. The development of the semiconductor industry faces more uncertainties with opportunities and risks coexisting.

WSTS statistics show that global semiconductor sales in May this year have seen a slight month-on-month increase for the third consecutive month (still down sharply year on year), and the market has begun to be cautiously optimistic about the rebound in market demand in the second half of the year. In summary, there are many uncertainties in the market in the second half of 2023, so we are cautious about the future development outlook. Specifically, for each business line of the Group, the outlook is as follows:

Smart Displays

According to the report from TrendForce, a market research agency, the global TV shipments in the second quarter of 2023 are expected to increase by 2% year-on-year, putting an end to the seven consecutive quarters of decline. However, the market outlook remains not optimistic. Statistics show that at present, there are 304 million households possessing smart TVs in China, with a penetration rate up to 85.7%. Therefore, China's smart TV market has entered the stock stage and no longer has the conditions for significant growth. According to the monitoring data from Sigmaintell, panel prices significantly increased during the period from March to June this year. Taking commonly used 32 inch and 55 inch panels as examples, prices increased by 32.14% and 38.37%, respectively. Therefore, multiple TV manufacturers have recently announced price increases at a range of 10-30% for their entire series of products. Reports show that the promotion performance of TVs during the 618 Shopping Festival this year does not meet expectations, with a double-digit year-on-year decline in sales volume. Coupled with the rise in overall TV prices, it will suppress new demand in the market. Therefore, it is expected that the TV shipments will continue to decline year-on-year in the second half of the year, which will have a negative impact on the performance of this segment in the second half of the year, and we are cautious about the market performance in the second half of the year.

Optoelectronic Displays

Counterpoint's macro index shows that the global PC market saw its first quarter-on-quarter shipments growth in the second quarter. It is expected that the PC market will experience a slow recovery in the second half of 2023 and return to normal shipping levels in 2024. According to TrendForce, although global notebook shipments decreased year-on-year in the second quarter of 2023, the number has begun to grow by 15.7% as compared with the previous quarter, making it the first time to record a quarter-on-quarter growth in the past six months. Therefore, it is expected that notebook shipments in the second half of the year will have the opportunity to stop the decline and stabilize. In the mobile phone market, IDC believes that the overall shipments of the global smartphone market in 2023 will slightly decrease by 1.1% year-on-year, and the shipment performance in the second half of the year will be better than in the first half. Therefore, the shipments in the global market, especially in the Chinese market, are expected to rebound in the second half of the year. In conclusion, we are cautious and optimistic about the order status in the second half of the year.

Smart Vision

Security, as a safety and security industry, is subject to various factors such as policy, technology and demand. It is an industry with broad development prospects and huge market potential, with smart, cloud-based, service-oriented development as its future main direction. The market sizes of global security increased by 11.7% year-on-year to approximately USD324 billion in 2022. China has become the world's largest security market, accounting for 26.3% of the global market. In the security industry, video surveillance represented by cameras accounts for around 50%, securing a dominant position in the security industry. In recent years, with the continuous rise of global network camera shipments, the whole market demand for IPC SoC chips in 2023 will exceed 200 million, and DVR/NVR shipments are expected to reach 40 million units. From 2020 to 2026, the market size of video surveillance in China will maintain an average compound annual growth rate of about 9%.

Although its results for the first half of 2023 declined due to the impact of unfavourable factors of the general market environment, the customer base and market share had not suffered significantly. With the arrival of the traditional peak season of consumption, we are cautiously optimistic on the results for the second half of the year.

Communication Products

The growth in the global cellular IoT module market is expected to be slower this year as higher average selling prices for 4G/5G cellular IoT module constrained shipments, according to market research firm Counterpoint. But as module costs fall and new applications increase, demand for cellular IoT module will rebound in 2024. According to IoT Analytics, the weakness in the first quarter of this year may only be a temporary phase of decline, and the market will resume growth momentum in the future, as there are important application areas for cellular IoT, such as intelligent measurement, logistic transportation, supply chain management and automobile remote information processing. On the other hand, we believe that the price of memory chips has reached a bottom at a certain extent in the middle of the year and will remain stable in the future, which will support the performance of this business unit in the second half of the year, so we are cautiously optimistic about the business for the second half of the year.

Memory Products

In terms of the historical cycle, the storage industry has a cycle of about 3 to 4 years. As of the second quarter of this year, the price in this round of cycle has experienced six consecutive quarters of decline since its phased peak in the first quarter of 2022, and is at or be close to the end of the cycle. On the supply side, the top memory manufacturers plan to raise contract price for DRAM, but inventory in the memory chip market remains high, therefore, the industry insiders expect that the overall bottoming out of the memory chip market price will be delayed. This business unit mainly sells DRAM and Nand flash memory chips for consumer electronics products. Given the current high inventory in the memory chip market, we will carry out forward-looking business layout in advance to lay a good business foundation for the subsequent cyclical market rebound. For the market trend of the second half of the year, we need to observe and be cautious about it.

Integrated Products

According to the Worldwide Internet of Things Forecast IDC Worldwide Internet of Things Spending Guide, worldwide spending on the IoT was $730 billion in 2022 and is expected to reach approximately US$1.2 trillion in 2027 with a five-year compound annual growth rate (CAGR) of 10.4%. Meanwhile, the Guide concludes that China's IoT spending will reach US$300 billion by 2027, accounting for about a quarter of global investment with the largest market share in the world. China's IoT IT spending will grow at a CAGR of 13.2%, which is higher than the global average level, and the outlook is promising.

This business unit gathers numerous new product lines and new business directions that are being developed by the Group. This business unit still maintained a relatively faster growth amid the unfavourable industry downturn in 2023. With the arrival of the traditional peak season of consumption in the second half of the year, we expect a further recovery in market demand, and this business unit will continue to maintain a good growth trend.

Independent Distribution

We will continue to promote the construction and operation of the Group's e-commerce platform to improve business efficiency through data aggregation and digital operation. While the second half of the year is the traditional peak season for the electronics manufacturing industry, in view of the global economic downturn, we are therefore cautious about our performance in the second half of the year.

Summary

As the global economic growth is continuing to slow and liquidity is tightening, consumers around the world show a common preference for "services" to "products". Moreover, as various uncertainties and challenges still exist worldwide in the second half of the year, the global economy may keep faltering for a certain time. However, all major economies have acknowledged that the semiconductor industry is a core industry and an important engine for economic growth and are generally optimistic about the new growth cycle of the industry in 2024. Therefore, despite some challenges encountered in the short-term, we have no qualms about the medium- and long-term prospects of the semiconductor industry. Whenever there is adjustment or change in the industry, there will be opportunities for the next round of growth, we shall therefore always be well-prepared to explore and capture new opportunities for navigating across the cycle.

In the second half of 2023, we will improve the quality and profitability of the Group's business based on sound operation and active innovation to bring better returns and long-term value for the shareholders of the Company ("**Shareholders**").

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2023, the Group's revenue amounted to HK$3,184.6 million, representing a decrease of HK$2,476.9 million (43.7%) as compared with the corresponding period in 2022 (HK$5,661.5 million). The decrease in revenue was mainly caused by the decrease in the sales from both authorized distribution business and independent distribution business.

Gross profit

Our gross profit for the six months ended 30 June 2023 decreased by HK$447.2 million (66.0%) to HK$229.9 million as compared with the corresponding period in 2022 (HK$677.1 million). Our gross profit margin decreased by 4.8 percentage points to 7.2% for the six months ended 30 June 2023 (six months ended 30 June 2022: 12.0%). The decrease in gross profit margin was principally caused by a decrease in sales from independent distribution.

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 2023, research and development expenses amounted to HK$17.1 million, decreased by 15.3% as compared with the six months ended 30 June 2022 (HK$20.2 million). The decrease was mainly due to a decrease in staff costs of our research and development personnel.

Administrative, selling and distribution expenses

Administrative, selling and distribution expenses aggregated to HK$166.7 million for the six months ended 30 June 2023 (six months ended 30 June 2022: HK$262.1 million), which accounted for 5.2% of the revenue for the six months ended 30 June 2023 as compared with 4.6% over the corresponding period in 2022. The decrease was mainly due to a decrease in staff costs of our selling and distribution personnel.

Finance costs

The Group's finance costs for the six months ended 30 June 2023 amounted to HK$31.6 million (six months ended 30 June 2022: HK$35.8 million). The Group has entered into various financing arrangements with principal bankers. The finance costs decreased compared to the prior period which was mainly due to a decrease in bank and other borrowings.

Profit for the period

For the six months ended 30 June 2023, the Group's profits amounted to HK$21.1 million, representing a decrease of HK$278.7 million as compared to HK$299.8 million for the corresponding period in 2022, a drop of 93.0%. The net profit margin for the six months ended 30 June 2023 was approximately 0.7%, representing a decrease of 4.6% as compared with the corresponding period in 2022 (2022: 5.3%).

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 2023 amounted to HK$12.7 million, representing a decrease of 91.3% as compared with the corresponding period in 2022 (six months ended 30 June 2022: HK$145.2 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$180.2 million of the net proceeds as at 30 June 2023 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 2023 *(in HK$ million)*	Utilised as at 30 June 2023 *(in HK$ million)*	Amount remaining *(in HK$ million)*	Expected timeline for utilising the remaining net proceeds *(Notes 1 and 2)* *(in HK$ million)*
1.	Hiring additional staff for sales and marketing and business development and improvement of warehouse facilities	20.6	0.0	(20.6)	0.0	–
2.	Advertising and organising marketing activities for the promotion of our e-commerce platform, Smart Core Planet and our new products	41.2	0.0	(41.2)	0.0	–
3.	Enhancing, further developing and maintain our e-commerce platform and improving our technology infrastructure	41.2	(0.7)	(15.6)	25.6	Expected to be fully utilised on or before 31 December 2025
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	(0.7)	(180.2)	25.6	

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 other things, the business environment being affected by the rapid change in technology in the past few years, the Sino-US trade tension in 2018, the social unrest in Hong Kong in 2019 and the outbreak of COVID-19 from January 2020 to the end of 2022. 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 2023, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK$919.1 million (31 December 2022: HK$951.7 million).

As at 30 June 2023, the outstanding bank and other borrowings of the Group were HK$1,000.5 million (31 December 2022: HK$1,030.2 million). The Group's gearing ratio, based on the interest-bearing borrowings, lease liabilities and total equity, increased from 87.7% as at 31 December 2022 to 88.0% as at 30 June 2023.

As at 30 June 2023, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK$3,192.7 million and HK$2,192.2 million (31 December 2022: HK$3,097.9 million and HK$2,067.6 million) respectively.

As at 30 June 2023, the Group had current assets of HK$2,503.4 million (31 December 2022: HK$2,581.8 million) and current liabilities of HK$1,656.0 million (31 December 2022: HK$1,646.0 million). The current ratio was 1.51 times as at 30 June 2023 (31 December 2022: 1.57 times).

The Group's debtor's turnover period was 66 days for the six months ended 30 June 2023 as compared to 63 days for the corresponding period in 2022. The overall debtors' turnover period was within the credit period.

The creditors' turnover period was 26 days for the six months ended 30 June 2023 as compared with 21 days for the corresponding period in 2022. Creditors' turnover period has been maintaining at a reasonable level.

The inventories' turnover period was 20 days for the six months ended 30 June 2023 as compared with 23 days for the corresponding period in 2022. The inventories' turnover period has been maintaining at a stable 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$6.2 million during the six months ended 30 June 2023 (six months ended 30 June 2022: net foreign exchange loss of approximately HK$16.7 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 2023, the financial assets at fair value through profit or loss ("**FVTPL**") amounted to HK$164.5 million (31 December 2022: HK$153.0 million), trade receivable factored amounted to HK$100.8 million (31 December 2022: HK$338.8 million) and bank deposits amounted to HK$493.6 million (31 December 2022: HK$457.3 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 2023.

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 2023.

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 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER 30 JUNE 2023

Up to the date of this announcement, the Group has no significant subsequent event after 30 June 2023 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 2023. 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 2023.

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 2023 (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 2023 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 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.