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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 2023

FINANCIAL HIGHLIGHTS

- The total revenue of the Group for the year ended 31 December 2023 amounted to HK\$5,665.9 million (2022: HK\$10,006.1 million), representing a decrease of 43.4% as compared with the year ended 31 December 2022.
- The gross profit of the Group amounted to HK\$441.5 million for the year ended 31 December 2023 (2022: HK\$1,094.7 million), representing a decrease of 59.7% as compared with the year ended 31 December 2022.
- The net profit attributable to the owners of the Company for the year ended 31 December 2023 amounted to HK\$71.1 million (2022: HK\$164.7 million), representing a decrease of 56.8% as compared with the year ended 31 December 2022.
- Basic and diluted earnings per share of the Company for the year ended 31 December 2023 were HK15.08 cents (2022: HK34.03 cents) and HK15.05 cents (2022: HK33.89 cents) respectively.
- The Board resolved to recommend a final dividend of HK5 cents per share of the Company for the year ended 31 December 2023 (2022: HK6 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 2023 (the “**Reporting Period**”) with the comparative figures for the previous year, as follows:

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

| | <i>Note</i> | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|---|-------------|--------------------------------|-------------------------|
| Revenue | 3 | 5,665,885 | 10,006,078 |
| Cost of sales | | <u>(5,224,423)</u> | <u>(8,911,337)</u> |
| Gross profit | | 441,462 | 1,094,741 |
| Other income | | 43,679 | 21,289 |
| Other gains or losses, net | | (1,936) | (44,142) |
| Reversals of impairment losses on trade receivables | | 4,951 | 30,305 |
| Research and development expenses | | (32,514) | (39,562) |
| Administrative expenses | | (116,007) | (144,732) |
| Selling and distribution expenses | | (176,622) | (380,454) |
| Share of result of an associate | | 3,260 | 32 |
| Finance costs | | <u>(57,032)</u> | <u>(79,179)</u> |
| Profit before tax | | 109,241 | 458,298 |
| Income tax expenses | 5 | <u>(16,736)</u> | <u>(78,553)</u> |
| Profit for the year | 6 | <u>92,505</u> | <u>379,745</u> |
| Attributable to: | | | |
| Owners of the Company | | 71,130 | 164,736 |
| Non-controlling interests | | <u>21,375</u> | <u>215,009</u> |
| | | <u>92,505</u> | <u>379,745</u> |
| Earnings per share | 8 | HK\$ | HK\$ |
| Basic | | <u>15.08 cents</u> | <u>34.03 cents</u> |
| Diluted | | <u>15.05 cents</u> | <u>33.89 cents</u> |

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Profit for the year | 92,505 | 379,745 |
| Other comprehensive income: | | |
| <i>Items that may be reclassified to profit or loss:</i> | | |
| Exchange differences on translating foreign operations | (2,857) | (10,824) |
| Share of other comprehensive income of an associate | (694) | (2,022) |
| <i>Item that will not be reclassified to profit or loss:</i> | | |
| Fair value loss on financial asset through other comprehensive income (FVTOCI) | (546) | – |
| Other comprehensive income for the year, net of tax | (4,097) | (12,846) |
| Total comprehensive income for the year | 88,408 | 366,899 |
| Attributable to: | | |
| Owners of the Company | 67,200 | 152,119 |
| Non-controlling interests | 21,208 | 214,780 |
| | 88,408 | 366,899 |

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

At 31 December 2023

| | <i>Note</i> | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|--|-------------|-------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 7,289 | 15,118 |
| Right-of-use assets | | 8,143 | 21,728 |
| Goodwill | | 20,159 | 29,894 |
| Intangible asset | | 6,316 | 9,888 |
| Club debentures | | 6,019 | 5,932 |
| Financial assets at FVTOCI | | 41,378 | – |
| Financial assets at fair value through profit or loss (FVTPL) | | 131,439 | 157,547 |
| Investment in associates | | 113,881 | 30,668 |
| Deposits | | 2,315 | 2,376 |
| Deferred tax assets | | 3,033 | 5,882 |
| | | <u>339,972</u> | <u>279,033</u> |
| Current assets | | | |
| Inventories | | 220,564 | 288,388 |
| Trade and bills receivables | 9 | 656,543 | 1,212,520 |
| Amount due from an associate | | 39,090 | 118 |
| Deposits, prepayments and other receivables | | 86,531 | 129,114 |
| Current tax assets | | 2,320 | – |
| Pledged bank deposits | | 227,472 | 457,286 |
| Bank and cash balances | | 167,805 | 494,405 |
| | | <u>1,400,325</u> | <u>2,581,831</u> |
| Current liabilities | | | |
| Trade payables | 10 | 265,560 | 350,674 |
| Contract liabilities | | 18,978 | 33,575 |
| Loan from an associate | | 78,039 | – |
| Amounts due to an associate | | 3,514 | – |
| Amounts due to non-controlling shareholders of a subsidiary | | – | 33,053 |
| Other payables and accrued charges | | 63,368 | 167,130 |
| Lease liabilities | | 6,817 | 14,100 |
| Bank and other borrowings | 11 | 394,141 | 1,025,519 |
| Current tax liabilities | | – | 21,917 |
| | | <u>830,417</u> | <u>1,645,968</u> |
| Net current assets | | <u>569,908</u> | <u>935,863</u> |
| Total assets less current liabilities | | <u>909,880</u> | <u>1,214,896</u> |

| | <i>Note</i> | 2023 HK\$'000 | 2022 HK\$'000 |
|--|-------------|--------------------------------|------------------|
| Non-current liabilities | | | |
| Lease liabilities | | 1,872 | 8,937 |
| Bank and other borrowings | | 3,595 | 4,707 |
| Deferred tax liabilities | | – | 329 |
| | | <u>5,467</u> | <u>13,973</u> |
| NET ASSETS | | <u>904,413</u> | <u>1,200,923</u> |
| Capital and reserves | | | |
| Share capital | | 38 | 38 |
| Reserves | | 904,700 | 873,328 |
| | | <u>904,738</u> | <u>873,366</u> |
| Equity attributable to owners of the Company | | (325) | 327,557 |
| Non-controlling interests | | <u>904,413</u> | <u>1,200,923</u> |
| TOTAL EQUITY | | <u>904,413</u> | <u>1,200,923</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 (the “**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 principal activities of its subsidiaries are 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.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

| | |
|---|--|
| 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 |
| Amendments to HKAS 12 | International Tax Reform — Pillar Two Model Rules — Amendments to HKAS 12 |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |

Except as described below, the application of the new and 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.

Impact on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies”

The Group has adopted Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies” for the first time in the current year. HKAS 1 “Presentation of Financial Statements” is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 “Making Materiality Judgements” (the “**Practice Statement**”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group’s financial positions and performance but has affected the disclosure of the Group’s accounting policies set out in the consolidated financial statements.

Impact on application of Amendments to HKAS 12 “International Tax Reform — Pillar Two Model Rules”

The Group has adopted Amendments to HKAS 12 “International Tax Reform — Pillar Two Model Rules” for the first time in the current year. HKAS 12 is amended 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 apply the amendments immediately upon issuance and retrospectively. The amendments also require that entities to disclose separately its current tax expense/income related to Pillar Two income taxes in periods which the Pillar Two legislation is in effect, 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 year because the Group’s entities are operating in jurisdictions where the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimated information that helps users of financial statements to understand the Group’s exposure to Pillar Two income taxes in the Group’s consolidated financial statements when the Pillar Two legislation is enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

3. REVENUE

(a) Disaggregation of revenue from contracts with customers

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|--------------------------------------|-------------------------|-------------------------|
| Types of goods or service | | |
| Sales of electronic components | <u>5,665,885</u> | <u>10,006,078</u> |
| Timing of revenue recognition | | |
| A point in time | <u>5,665,885</u> | <u>10,006,078</u> |
| Sales channel/product lines | | |
| Authorised distribution | | |
| — Optoelectronic displays | 794,525 | 1,080,031 |
| — Memory products | 98,139 | 301,608 |
| — Communication products | 426,960 | 683,334 |
| — Smart vision | 923,459 | 1,428,147 |
| — Smart display | 1,859,460 | 2,899,524 |
| — Integrated products | 343,143 | 266,953 |
| — Optical communication | 167,496 | 1,149 |
| — Others | <u>221,868</u> | <u>230,673</u> |
| | <u>4,835,050</u> | 6,891,419 |
| Independent distribution | <u>830,835</u> | <u>3,114,659</u> |
| | <u>5,665,885</u> | <u>10,006,078</u> |

(b) 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 2023 and 2022, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

(c) 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

The chief operating decision maker has been identified as the directors of the Company. The directors review the Group's internal reporting for the purposes of resource allocation and assessment of segment performance which focused on types of goods delivered. The Group has identified two reportable segments as follows:

- (a) Authorised distribution, which involves the distribution of integrated circuit ("IC") products that are procured directly from and authorised for sale by a list of internationally well-known IC brands in the industry.
- (b) Independent distribution, which involves the distribution of IC products that are procured by the Group from other readily available suppliers in the market.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of unallocated expenses, share of result of an associate, fair value loss on financial assets at FVTPL, and gain on deconsolidation of a subsidiary. This is the measure reported to the directors for the purposes of resource allocation and performance assessment.

The directors make decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the directors do not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Information about reportable segment profit or loss:

| | Authorised distribution HK\$'000 | Independent distribution HK\$'000 | Segment total HK\$'000 | Elimination HK\$'000 | Consolidated HK\$'000 |
|---------------------------------|--|---|------------------------------|-------------------------|--------------------------|
| Year ended 31 December 2023 | | | | | |
| Revenue from external customers | 4,835,050 | 830,835 | 5,665,885 | – | 5,665,885 |
| Inter-segment sales* | 2,704 | 10,936 | 13,640 | (13,640) | – |
| | <u>4,837,754</u> | <u>841,771</u> | <u>5,679,525</u> | <u>(13,640)</u> | <u>5,665,885</u> |
| Segment profit | <u>58,696</u> | <u>27,982</u> | <u>86,678</u> | <u>–</u> | <u>86,678</u> |
| Year ended 31 December 2022 | | | | | |
| 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

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.

Reconciliations of reportable segment profit or loss:

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit or loss | | |
| Total profit of reportable segments | 86,678 | 388,520 |
| Unallocated amounts: | | |
| Unallocated expenses | (3,298) | (5,369) |
| Fair value gain/(loss) on financial assets at FVTPL | 3,006 | (3,438) |
| Share of result of an associate | 3,260 | 32 |
| Gain on deconsolidation of a subsidiary | 2,859 | – |
| | <u>92,505</u> | <u>379,745</u> |
| Consolidated profit for the year | <u>92,505</u> | <u>379,745</u> |

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

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|--------------------|-------------------------|-------------------------|
| Hong Kong | 4,242,407 | 7,323,814 |
| The PRC | 1,264,470 | 1,906,177 |
| Singapore | 127,859 | 584,600 |
| Japan | 7,139 | 161,527 |
| Others | 24,010 | 29,960 |
| | <u>5,665,885</u> | <u>10,006,078</u> |
| Consolidated total | <u>5,665,885</u> | <u>10,006,078</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:

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Authorised distribution segment | | |
| Customer 1 | 698,120 | 1,302,755 |
| Customer 2 | 714,141 | 1,074,323 |
| | <u>698,120</u> | <u>1,302,755</u> |
| | <u>714,141</u> | <u>1,074,323</u> |

5. INCOME TAX EXPENSES

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|---------------------------|-------------------------|-------------------------|
| Current tax | | |
| Hong Kong Profits Tax | 12,297 | 56,084 |
| PRC Enterprise Income Tax | 1,630 | 6,384 |
| Singapore Corporate Tax | 560 | 13,351 |
| Others | 173 | – |
| | <u>14,660</u> | <u>75,819</u> |
| Deferred tax | 2,076 | 2,734 |
| | <u>16,736</u> | <u>78,553</u> |

6. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Directors' emoluments | 7,549 | 6,417 |
| Staff costs (excluding directors' emoluments): | | |
| Salaries, wages and other allowances | 137,596 | 178,495 |
| Discretionary bonuses | 20,921 | 127,986 |
| Retirement benefit scheme contributions | 24,058 | 24,720 |
| | <u>190,124</u> | <u>337,618</u> |
| Amortisation of an intangible asset (included in selling and distribution expenses) | 3,572 | 2,392 |
| Depreciation on property, plant and equipment | 4,222 | 3,449 |
| Depreciation on right-of-use assets | 15,236 | 14,729 |
| Auditor's remuneration | | |
| — Annual audit services | 1,680 | 2,670 |
| — Other audit services | 363 | 357 |
| — Non-audit services | 645 | 920 |
| Cost of inventories recognised as an expense (excluding allowance for inventories) | 5,254,628 | 8,848,632 |
| (Reversal of)/allowance for inventories (included in cost of sales) | <u>(30,205)</u> | <u>62,705</u> |

7. DIVIDENDS

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| 2022 final dividend of HK\$0.06 per ordinary share (2022: 2021 final dividend of HK\$0.08 per ordinary share) | 28,262 | 38,944 |
| 2022 interim dividend of HK\$0.04 per ordinary share | — | 19,199 |
| | <u>28,262</u> | <u>58,143</u> |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2023 of HK5 cents (2022: final dividend in respect of the year ended 31 December 2022 of HK6 cents) per ordinary share, in an aggregate amount of approximately HK\$24,434,000 (2022: HK\$28,262,000), 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 is based on the following:

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Earnings | | |
| Earnings for the purpose of calculating basic and diluted earnings per share | <u>71,130</u> | <u>164,736</u> |
| | 2023 | 2022 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 471,543,222 | 484,045,140 |
| Effect of dilutive potential ordinary shares arising from restricted share units (“RSU”) | <u>1,000,000</u> | <u>2,000,000</u> |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | <u>472,543,222</u> | <u>486,045,140</u> |

For the years ended 31 December 2023 and 2022, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account the ordinary shares purchased by the Trustee from the market pursuant to the share award scheme of the Company for those unvested awarded shares and ungranted shares, adjusted by the ordinary shares vested under the share award scheme of the Company.

Basic earnings per share attributable to owners of the Company is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of the ordinary shares in issue during the year.

9. TRADE AND BILLS RECEIVABLES

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|-----------------------------|-------------------------|-------------------------|
| Trade receivables | 660,030 | 1,212,970 |
| Allowance for credit losses | (14,255) | (23,172) |
| | 645,775 | 1,189,798 |
| Bills receivables | 10,858 | 23,278 |
| Allowance for credit losses | (90) | (556) |
| | 656,543 | 1,212,520 |

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 0 to 120 days (2022: 0 to 120 days). The bills receivables have a general maturity period ranging from 30 to 180 days (2022: 30 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by the directors.

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:

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|-------------------|-------------------------|-------------------------|
| Trade receivables | | |
| 0 to 60 days | 635,356 | 823,528 |
| 61 to 120 days | 6,169 | 321,450 |
| Over 120 days | 4,250 | 44,820 |
| | 645,775 | 1,189,798 |
| Bills receivables | | |
| 0 to 60 days | 10,768 | 22,722 |

10. TRADE PAYABLES

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Trade payables | <u>265,560</u> | <u>350,674</u> |

The credit period for trade payables ranging from 0 to 60 days (2022: 0 to 60 days).

Aging analysis of the Group's trade payables based on invoice date is as follows:

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|---------------|-------------------------|-------------------------|
| 0 to 30 days | 214,819 | 269,729 |
| 31 to 60 days | 22,240 | 19,174 |
| 61 to 90 days | 11,566 | 36,670 |
| Over 90 days | <u>16,935</u> | <u>25,101</u> |
| | <u>265,560</u> | <u>350,674</u> |

11. BANK AND OTHER BORROWINGS

| | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|-------------------------|-------------------------|-------------------------|
| Import and export loans | 172,669 | 464,411 |
| Other bank borrowings | <u>208,518</u> | <u>556,801</u> |
| | 381,187 | 1,021,212 |
| Other borrowings | <u>16,549</u> | <u>9,014</u> |
| | <u>397,736</u> | <u>1,030,226</u> |
| Analysed as: | | |
| Secured | 397,736 | 1,010,734 |
| Unsecured | <u>–</u> | <u>19,492</u> |
| | <u>397,736</u> | <u>1,030,226</u> |

The bank and other borrowings are repayable as follows:

| | 2023 | 2022 |
|--|------------------|-------------|
| | HK\$'000 | HK\$'000 |
| Within one year | 25,837 | 52,513 |
| More than one year, but not exceeding two years | 1,049 | 3,052 |
| More than two years, but not more than five years | 2,546 | 1,655 |
| | 29,432 | 57,220 |
| Portion of bank and other borrowings that contain a repayment on demand clause (shown under current liabilities) | 368,304 | 973,006 |
| | 397,736 | 1,030,226 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | (394,141) | (1,025,519) |
| Amount due for settlement after 12 months | 3,595 | 4,707 |

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 HK5 cents per share of the Company for the year ended 31 December 2023 (2022: HK6 cents per share) to the shareholders of the Company (the “**Shareholders**”) whose names appear on the register of members of the Company on Tuesday, 4 June 2024. The Board did not declare interim dividend this year. Hence, the total dividend for the year is HK5 cents (2022: total dividend of HK10 cents, comprising interim dividend of HK\$4 cents and final dividend of HK6 cents) per share. Subject to the approval by the Shareholders at the forthcoming Annual General Meeting (as defined below) to be held on Friday, 24 May 2024, the proposed final dividend is expected to be paid on or about Friday, 28 June 2024.

MANAGEMENT’S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2023 was a year filled with challenges and transformations. Global geopolitical tensions continued; developed economies kept interest rate hikes to combat inflation; and the supply chain risks arising from economic de-globalization were still lingering. The World Health Organization (WHO) declared an end to the public health emergency of international concern over the COVID-19 pandemic in May 2023, marking the official transition into the post-pandemic era. However, the recovery of the global economy was constrained by insufficient demand and inadequate investment at a global scale. According to the latest World Economic Outlook Update report released by the World Bank in January 2024, the global economic growth rate is estimated at only 2.6% in 2023. It is projected that the global economy in 2022–2024 will register the lowest growth rate since 1995, with economic weakness even worse than the subprime crisis in 2008, the Asian financial crisis around 2000 and the burst of the dot-com bubble.

Data released by the National Bureau of Statistics of China revealed that China’s GDP at constant prices grew by 5.2% year-on-year in 2023, reaching RMB126 trillion, while the nominal growth rate was only 4.64%. However, the economy was on a moderate recovery path as the economic growth in 2023 was compared with the low base in 2022. There were also various challenges during its development, including insufficient market demand, shortage of corporate orders, constrained fund circulation and overcapacity, coupled with sluggish real estate and private investment sectors, generally exposing the Chinese economy growth to significant pressure in 2023.

The electronics industry also keenly suffered from the weakening demand amid economic slowdown, with declines in shipments of major consumer electronic products to various extents in 2023. According to the Worldwide Quarterly Personal Computing Device Tracker issued by research firm IDC at the end of 2023, global PC shipments are expected to decrease by 13.8% year-on-year in 2023 due to the fragile macroeconomic environment. Data from Counterpoint indicated that global smartphone shipments are expected to decrease by 5% year-on-year in 2023, reaching only approximately 1.2 billion units, the lowest shipment level in nearly a decade. A report issued by Runto Technology in 2024 revealed a significant decline in the shipments of the domestic television market in 2023, while data from TrendForce also indicated that the shipments of the global television market dropped to a near-decade low.

As there were approximately 70% of semiconductor chips used in PCs, communication products and consumer electronic products, the decline in shipments of such electronic products had a direct impact on the prosperity of the semiconductor chip market. According to the forecast data for global semiconductor market released by World Semiconductor Trade Statistics (WSTS) at the end of 2023, the global semiconductor market size is estimated to be US\$520.1 billion in 2023, a year-on-year decrease of 9.4% from US\$574.1 billion in 2022. Statistics from the General Administration of Customs of China showed that China's total integrated circuit imports was 479.5 billion units in 2023, a year-on-year decrease of 10.8%; the total import value was US\$349.4 billion, a year-on-year decrease of 15.4%; and the average unit price of imported chips decreased by 5.6%.

In 2023, the chip market experienced a decline in terms of volume and price due to the global downturn in the consumer electronic market, the general decline in shipment of electronic products and the destocking of industrial chain. Coupled with the changes from customers, there was an inevitable impact on the business of the Group, which was reflected in a significant decline in revenue. The Group achieved accumulated sales of HK\$5,665.9 million in 2023, representing a decrease of 43.4% year-on-year, and gross profit of HK\$441.5 million, representing a decrease of 59.7% year-on-year. A business review for each of the Group's major business units is set out below:

Smart Displays

The smart display business unit mainly provides SoC master chips for flat-panel TVs and commercial display products. According to statistics from TrendForce, a research firm, global TV shipments are expected to decrease by 2.5% year-on-year to less than 197 million units in 2023 due to the declining market sentiment, hitting the lowest level in the past ten years. In Mainland China, TV shipments also presented a significant downward trend. According to the statistics from AVC (奧維雲網), the retail sales volume of color TV in domestic market reached 31.42 million units in 2023, representing a decrease of 13.6% year-on-year. The weak demand and end-customer adjustments resulted in lower chip sales in this business unit, which, coupled with factors such as reduction in unit price of SoC chips and more intensified competition among brands, gave rise to the sales results of the business unit falling short of expectations in 2023. The aggregate sales recorded in 2023 amounted to HK\$1,859.5 million, representing a significant year-on-year decrease of 35.9%.

Optoelectronic Displays

The business unit mainly sells chips for the fields such as display, commercial display, laptop screen driver, TDDI chips for mobile phone, and power supply. In 2023, the global shipments of PCs, laptops, tablets, TVs and smartphones have declined at different degrees. According to statistics from Omdia, a research firm, the global shipments of laptop display panels and industrial display panels declined by 13% and 8.8% year-on-year, respectively, in 2023. Market information indicates that the shipments of smartphone cameras also declined by 8.9% to only 4,065 million units in 2023. As a result, the chip shipments of TCON, Driver, Power, Scaler and CMOS image sensor related to panel display decreased significantly, coupled with the decline in price, which resulted in the business unit's sales results not aligning with prior forecasts. Therefore, this business unit recorded aggregate sales of HK\$794.5 million in 2023, representing a significant year-on-year decrease of 26.4%.

Smart Vision

The business unit of smart vision mainly provides chips for security and smart home products, including chip products and solutions for signal collection, transmission, storage, display, and control, which can be widely used in such fields as security, smart home and automotive electronics. The statistics released by RUNTO, a market research agency, show that China's overall market size of consumer cameras in 2023 had slightly increased to 50 million units. According to statistics from China Public Security, the domestic security bidding projects recorded certain degrees of decline in terms of both bidding project numbers and budgets in the first half of 2023; in particular, the number of core projects valued at around RMB10 million reduced from 53 to 46, representing a year-on-year decrease of 13.2%, with a year-on-year decline of 16% in their total budgets. Another important trend in 2023 was that the market competition in SoC chips for cameras became more intense, leading to a significant decrease in the unit price of chip products compared to 2022. As such, although the chip shipment volume of this business unit increased in 2023 compared to 2022, the sales declined significantly. In 2023, the aggregate sales reached HK\$923.5 million, representing a year-on-year decrease of 35.3%.

Communication Products

This business unit mainly sells MCP memory chips, radio frequency PA chips and other electronic components for cellular Internet of Things (IoT) modules. According to the latest report on tracking global cellular IoT modules and chipset application performance released by Counterpoint, a market research agency, the shipment volume of IoT modules declined in domestic and overseas markets simultaneously due to the combined impact of factors such as weak demand, rising interest rates and cautious spending of IoT companies, and the global shipment volume of IoT cellular modules was expected to decrease by 5% year-on-year in 2023. According to statistics from another research agency, IoT Analytics, the global shipment of cellular IoT modules and their corresponding chips was expected to decrease by about 18% year-on-year in 2023, which led to a year-on-year decline of 11% in revenue of module manufacturers and device manufacturers. Due to the sluggish market sentiment, this business unit recorded aggregate sales of HK\$427.0 million in 2023, representing a significant decrease of 37.5% year-on-year.

Memory Products

This business unit mainly sells memory chips, such as NandFlash, NorFlash, and DRAM, used in various smart hardware and electronic devices. In the past two years, European countries and the US continuously raised interest rates to combat high inflation, which suppressed investment and consumption and thus caused sluggish global economic growth and weak consumption. As they are major markets of memory chips, the shipment volume of smartphones, PCs, laptops, tablets, smart audio-visual products, smart hardware, and other products all recorded a decline, resulting in a sharp fall in the demand for memory chips and a high inventory of chip manufacturers and distribution channels. The spot and futures prices were all the way down, causing huge losses to major manufacturers of storage chips. According to the forecast of WSTS, the global market size of storage chips is expected to be US\$84 billion in 2023, a significant decrease of 35.2% compared to US\$129.77 billion in 2022. Amid such background, this business unit recorded aggregate sales of HK\$98.1 million in 2023, a significant year-on-year decrease of 67.5%.

Integrated Products

The integrated product segment includes three product groups, namely AIoT, MCU and CE. 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. This business unit gathers numerous new business directions and new product lines that are being developed by the Group. Benefiting from the introduction of new product lines and the support of incremental business, this business unit still maintained a relatively faster growth amid the industry downturn in 2023. This business unit recorded aggregate sales of HK\$343.1 million in 2023, representing a significant year-on-year increase of 28.5%.

Optical Communication

This business unit mainly distributes and sells optical communication chips. Optical communication chips are integrated circuits used to process optical signals in optical modules. The products we sell include 10G-28G DFB, 10G-50G VCSEL, 10G-50G EML chips used in telecom optical modules, and 10G-200G InGaAs PD GaAs PD InGaAs APD receiver chips used in 400G/800G optical modules in data centers. In 2023, the demand for computility from the AI big model boom reached a new height. The AI cluster upgrades required the use of a large number of high-speed optical fiber connections, making the data communication sector the fastest-growing market for optical module applications. The business unit thus benefited and achieved significant year-on-year growth in shipments and revenue in 2023, with aggregate sales of HK\$167.5 million, representing a significant year-on-year increase of 14,477.5%.

Independent Distribution

The demand for electronic products is sluggish due to the continued decline in global macroeconomics. The overall global market demand for electronic components dropped significantly with rising channel inventories had led to a buyer-driven market with supply outstripping demand. As such, the shortages caused by the supply-demand mismatch and the rush spot order demand in the previous two years have significantly reduced in 2023, which have particularly impacted the independent distribution business. As a result, this business unit has experienced a significant decline in terms of order volume, order value and profit margin. It recorded aggregate sales of HK\$830.8 million, representing a significant year-on-year decrease of 73.3%.

OUTLOOK FOR 2024

In the Economic Prospects released in January, the World Bank concluded that global economy will be in downturn for the third consecutive year in 2024, with its growth rate expected to decrease from 2.6% in 2023 to 2.4%. Global economic development has been highly challenging due to the tightening monetary policy, the escalation of geopolitical conflicts, the sluggish international trade and the increasing number of climate disasters. The economic growth, for developed, developing and low-income economies alike, will slow down to varying degrees.

In 2024, Chinese economy will face various challenges. Challenges that currently prevail in China include changing external environment, non-fully-operating domestic market, low social expectations in general and material problem of overcapacity in some industries. The World Bank is therefore of view in its prospects report that the growth rate of Chinese economy will also slow down to 4.5% in 2024, however, the report issued by the Chinese Academy of Sciences Center for Forecasting Science (中國科學院預測學研究中心) states that Chinese economy will grow in a stable manner and the annual GDP thereof is expected to increase by around 5.3% year-on-year. The industry insider is of the opinion that whether the growth rate of Chinese economy can exceed 5% in 2024 rests with the extent of effective investment.

In terms of the electronics industry, according to the opinions from professional market research agencies, including IDC, Canalis and TechInsights, consumer electronic products, including cell phone, PC/notebook, television and AR/VR, will meet different levels of growth in 2024. The report issued by TechInsights indicates that there will be a technical revolution in the consumer electronics industry with the integration of innovative technologies such as AI. Under the impetus of the market of smart home and wearable devices, the scale of revenue of the global consumer electronics market will increase to over US\$1 trillion in 2024 from US\$947 billion in 2023, and will reach US\$1.2 trillion in 2028 with a compound annual growth rate of 4%.

In terms of the semiconductor industry, forecast data issued by industry research firms, including WSTS, Gartner, IDC and TechInsights, all show optimistic, which is of view that, driven by the resurging demand of storage, AI and consumer electronics, the global semiconductor chip market will resume to grow in 2024. The latest report issued by WSTS expects that the scale of global semiconductor chip market will increase by 13.1% to US\$588.4 billion. The latest World Fab Forecast issued by SEMI is of opinion that, with the stimulus of surging cutting-edged applications including LogicIC, generative AI and high-performance PC, the global capacity of semiconductor wafer on a monthly basis will increase by 6.4% in 2024, kicking off the level of 30 million wafers. The monthly capacity of semiconductor manufacturers in China, with the benefit of favorable policies, will increase by 13% to 8.6 million wafers, taking the lead of the growth of global semiconductor industry.

Information shown on market is ambivalent. As a leading all-round distributor of electronic components in China, the Group has adhered to business diversification, has aggressively invested in overseas markets and has kept close cooperative relationship with up-streams and down-streams of the industry chain over the years. Therefore, if there is an increase in the semiconductor industry in 2024 as the market expected, the Group's business will secure more development opportunities in the new round of industry resumption. Specifically, for each business line of the Group, the outlook is as follows:

Smart Displays

TV shipments are affected by a wide range of factors, including macroeconomic conditions, housing market trends, product technological innovations, consumer willingness and sports events. Currently, the expected slowdown in global economic growth in 2024 suggests a less optimistic outlook for both the global and Chinese property markets, thereby potentially impacting the demand in the TV market. Nonetheless, 2024 is slated to be a bustling year for sporting events, with the Asian Cup kicking off the year, followed by the UEFA Euro and Copa America in the middle of the year, and culminating with the Paris Olympics in the second half, all of which are expected to bolster TV shipments. In contrast to research institution Sigmaintell's forecast that global color TV shipments could increase slightly to approximately 215 million units in 2024, halting the three years of decline, research institute TrendForce is more pessimistic. They believe that there is still a possibility of TV shipments continuing to decline in 2024 due to existing oversupply. In summary, the growth of this business unit in 2024 is prudent and its operations will be stable.

Optoelectronic Displays

According to forecast reports from IDC, Canalys, TechInsights, and other research institutions, shipments of devices featuring displays such as smartphones, PCs, smart home gadgets, TVs, AR/VR devices, and others are expected to increase at varying rates in 2024. This increase in device shipments is anticipated to drive growth in shipments of display panels, image sensors, and power supply chips. TrendForce's latest research report predicts that shipments of LCD panels in 2024 will slightly increase by 3.4% to approximately 242 million units, representing an 8.6% increase in terms of shipped area. However, since the global economy has not fundamentally improved, the expected increase in market demand is not significant. We are therefore prudent about the business growth of this business unit in 2024, and we will adjust our marketing strategy in response to changes in the market to ensure the smooth and orderly development of our business in the future.

Smart Vision

In the global market, the demand for video security is experiencing rapid growth. Traditional single-function video monitoring and access control systems are expected to see a decline in market share, while products that integrate AI technologies such as image recognition and voice recognition are poised for new opportunities and development. According to market data from Runto Technology in October 2023, sales of 5-megapixel HD camera products increased by 11.6 percentage points to 17.6% compared to the same period in 2022. In addition, the market share of products with baby cry monitoring will increase to 23.1%, the market share of pet identification cameras will increase to 5.3%, and the market share of multi-lens cameras, represented by stereo vision cameras, will increase to 12%, indicating the growing popularity of new technology applications related to AI. The Business Unit proactively monitored the market and the changes in market demand brought about by AI algorithms, and allocated resources to integrate various algorithms in its technology solutions with a view to responding to the changes in market demand. As per a report published by market research agency The Brainy Insights, the global network camera market size is expected to grow from USD10.21 billion in 2022 to USD39.63 billion by 2032, at a CAGR of 14.5% during the forecast period. The future market outlook appears generally positive, and our focus should be on consolidating and enhancing our market share while increasing the software value-added and competitiveness of our solutions and products. In summary, we expect that the business revenue of this business unit will resume growth in 2024.

Communication Products

According to the Global Cellular IoT Module, Chipset and Application Tracker released by Counterpoint, a market research agency, the global IoT module market will begin to recover in 2024, with significant growth in 2025 driven by the large-scale application of 5G and 5G RedCap. In the market forecast report released by Counterpoint previously, it concluded that 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/CPE, automotive and POS. According to the research agency IoT Analytics, as inventory pressure decreases, the cellular IoT module shipments will begin to increase in the first quarter of 2024, and the number of connections and demand of cellular IoT is expected to grow year by year, although there are still many uncertainties in the market outlook. Looking ahead to 2024, this business unit is expected to resume growth and achieve its scheduled full-year business goals.

Memory Products

Since the second half of 2023, as the semiconductor market gradually emerges from a downward cycle and the prices of various memory chips nearly fall to their cost prices, upstream chip manufacturers have been triggered to implement protective production and price limits. Coupled with the new demand for memory chips generated by the AI boom, the future price of memory chips was the first to bottom out in Q3 2023. Moreover, from the market side of the electronic industry, in 2024, the shipments of memory chips in main application markets including smartphones, PCs, laptops, and other smart devices will experience varying degrees of growth. According to monitoring data from the research agency Yole, memory chips will begin to recover from Q4 2023 and will enter an upward trend of both quantity and price from 2024 to 2025. WSTS believes that the revenue of semiconductor memory will increase significantly by 43.2% to US\$120.3 billion in 2024. In the past year, this business unit has actively explored new opportunities in the memory chips industry, including introducing more competitive industry benchmark brands and conducting early deployment on the client side. At present, the product line, work-force, and customer base are all well-prepared, and some orders have also begun to be fulfilled. It is expected that the revenue of this business unit will achieve breakthrough growth in 2024.

Optical Communication

The rapid development of AI has contributed to a significant increase in the shipments of high-speed optical modules. The number of 200G optical modules required for a single A100 GPU in Nvidia AI supercomputers is about 7.2, while in more advanced DGX GH200 supercomputers, each GPU chip requires 12 expensive 800G optical modules. The number of optical modules for a single set of supercomputer can be 1,920. According to the forecast of research agency Lightcounting, the total sales of optical modules used in artificial intelligence clusters will reach US\$17.6 billion in the next four years, and the global optical module market is expected to exceed US\$20 billion by 2027, with broad market prospects. However, due to the fact that the pace of the optical module market in 2023 is too fast, AI processors are currently undergoing rapid iteration and upgrading, and the time for corresponding optical module technology iteration has also accelerated from the original 4-5 year to about 3 years, we are cautious about the continued explosive growth of the market in 2024 given the explosive demand in 2023, although we are optimistic about the long-term development of optical modules. Therefore, it is expected that the revenue of this business unit will achieve stable growth in 2024 following its significant increase in 2023.

Integrated Products

The industry research organizations generally believe that, as the semiconductor industry begins to bottom out at the end of 2023, it will see significant growth in 2024. The business scope of this business unit covers smart hardware, IoT, MCU application, wireless telecommunication, etc. With a wide coverage of business and customer base, there will be more opportunities to benefit from the overall rebound in demand in the electronics industry. At the same time, this business unit will continue to seek new business increments by expanding new product lines, new business areas and new customers in 2024. Therefore, we are optimistic about the continued business growth of the business unit in 2024.

Independent Distribution

Although it is widely believed that the electronic components industry will recover significantly in 2024 and the global semiconductor market will see a double-digit growth rate, independent distribution business will see only a limited boost as the supply chain tends to be stable and the market sales growth is mainly attributable to the recovery in demand and the increase in volume and price of memory chips.

Summary

The electronics industry, after experiencing a downturn in demand in 2023, is expected to usher in a phased recovery in 2024, which will be a boon to the development of the semiconductor chip industry. From another perspective, as an important innovation and growth engine for global economic development, the semiconductor chip industry has the opportunity to play a more positive and important role in the future global economic recovery. We are firmly optimistic about the future development of the semiconductor industry.

In 2024, we will continue to expand our authorized distribution business and keep an eye on the industrial opportunities brought by domestic semiconductor chips. In the meantime, we will actively explore overseas markets and businesses and operate our business from a global perspective to promote the growth of the Group's technology value-added team and e-commerce platform business. We will seize new opportunities in optical communication chips and memory chips markets in the time of AI. Leveraging on the Group's digital business base, we will realize the diversified and synergetic development of the Group's businesses. In 2024, we will strive to innovate while maintaining compliant and sound operations to improve the Group's operating quality and profitability, so as to bring better returns and long-term value to the Shareholders.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2023, the Group's revenue amounted to HK\$5,665.9 million (2022: HK\$10,006.1 million), representing a decrease of HK\$4,340.2 million (or 43.4%) as compared with the revenue for the year ended 31 December 2022.

The decrease in revenue was mainly caused by the decrease in the sales from independent distribution, our smart displays and smart vision products of approximately HK\$3,828.6 million.

Gross profit

Our gross profit for the year ended 31 December 2023 decreased by HK\$653.2 million to HK\$441.5 million as compared with the prior year (2022: HK\$1,094.7 million). Our gross profit margin decreased by 3.1% to 7.8% for the year ended 31 December 2023 (2022: 10.9%). The decrease in gross profit margin was mainly due to a sharp decrease in the sales from the independent distribution which has a higher gross profit margin.

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 2023, research and development expenses amounted to HK\$32.5 million, decreased by 17.9% as compared with the year ended 31 December 2022 (2022: HK\$39.6 million).

Administrative and selling and distribution expenses

Administrative and selling and distribution expenses aggregated to HK\$292.6 million for the year ended 31 December 2023 (2022: HK\$525.2 million), which accounted for 5.2% of the revenue for the year ended 31 December 2023 as compared with 5.2% over the corresponding year in 2022. The net decrease of HK\$232.6 million was mainly attributable to a decrease in staff costs and marketing expenses.

Finance costs

The Group's interest expense on bank and other borrowings for the year ended 31 December 2023 amounted to HK\$57.0 million, a decrease of HK\$22.2 million as compared with that in 2022 (2022: HK\$79.2 million). Interest expenses mainly represent the borrowing costs from entering into various factoring agreements with some of the principal bankers and import loans from our principal bankers. The decrease was due to the decrease in 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 2023 of approximately HK\$3.3 million (2022: HK\$0.03 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 2023, the Group's profits amounted to HK\$92.5 million, representing a decrease of HK\$287.2 million as compared to HK\$379.7 million in 2022, representing a decrease of 75.6%. The net profit margin for the year ended 31 December 2023 was 1.6%, compared to 3.8% for the year ended 31 December 2022. The decrease in the profit for the year was mainly contributed by the decrease in gross profit.

Net profit attributable to the owners of the Company

The net profit attributable to the owners of the Company for the year ended 31 December 2023 amounted to HK\$71.1 million, representing a decrease of 56.8% as compared with the year ended 31 December 2022 (2022: HK\$164.7 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 the (“Stock Exchange”) on 7 October 2016. The Company issued 125,000,000 new shares with a 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 2023, the Group had utilised HK\$1.8 million of the net proceeds from the Listing. The Group has utilised approximately HK\$181.3 million of the net proceeds as at 31 December 2023 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\$24.5 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 | Utilised | Amount remaining (in HK\$ million) | Expected timeline for utilising the remaining net proceeds (Notes 1 and 2) (in HK\$ million) |
|--|-----------------------------------|--|---|--|--|
| | | during 31 December 2023 (in HK\$ million) | as at 31 December 2023 (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 | (1.8) | (16.7) | 24.5 | 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 | – |
| | <u>205.8</u> | <u>(1.8)</u> | <u>(181.3)</u> | <u>24.5</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 other 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 resources, 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 2023, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK\$395.3 million (31 December 2022: HK\$951.7 million).

As at 31 December 2023, the outstanding bank borrowings of the Group were HK\$397.7 million (31 December 2022: HK\$1,030.2 million). The Group's gearing ratio, which is calculated by the interest-bearing borrowings divided by total equity, decreased from 85.8% as at 31 December 2022 to 44.0% as at 31 December 2023 as a result of the decrease in bank borrowings.

As at 31 December 2023, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK\$3,189.8 million and HK\$2,792.0 million (31 December 2022: HK\$3,097.9 million and HK\$2,067.6 million) respectively.

As at 31 December 2023, the Group had current assets of HK\$1,400.3 million (31 December 2022: HK\$2,581.8 million) and current liabilities of HK\$830.4 million (31 December 2022: HK\$1,646.0 million). The current ratio was 1.69 times as at 31 December 2023 (31 December 2022: 1.57 times). The decrease in current assets is primarily due to the decrease in inventories and trade receivables as compared with 31 December 2022.

The Group's debtors' turnover period was 60 days for the year ended 31 December 2023 as compared to 58 days for the year ended 31 December 2022. 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 were more affected by the change in the economic environment.

The creditors' turnover period was 22 days for the year ended 31 December 2023 as compared with 18 days for the year ended 31 December 2022. Creditors' turnover period has been maintained at a stable level.

The inventories' turnover period was 18 days for the year ended 31 December 2023 as compared with 18 days for the year ended 31 December 2022. 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\$7.9 million for the year ended 31 December 2023 (31 December 2022: net foreign exchange loss of HK\$41.0 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 2023, the financial assets at fair value through profit or loss (the "FVTPL") amounted to HK\$127.0 million (31 December 2022: HK\$153.0 million), trade receivable factored amounted to HK\$230.7 million (31 December 2022: HK\$345.7 million) and bank deposits amounted to HK\$227.5 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 during the years ended 31 December 2023 and 2022.

Significant investments held

Save for the financial assets at FVTPL and FVTOCI, the Group did not hold any significant investments during the years ended 31 December 2023 and 2022.

Material acquisition and disposal of subsidiaries and associated companies

Deconsolidation of the Quiksol Group

The Quiksol Group, including Quiksol International HK Pte Limited (“**Quiksol HK**”) together with its wholly-owned subsidiaries, is a leading independent distributor of electronic components and also provided services and products to clients who have global branches.

With effect from 31 December 2023, one of the representatives of the Group had ceased to act as a director of Quiksol HK and a member of the board of Quiksol HK (the “**Action**”). As the Group no longer controls the majority of the board of Quiksol HK upon the resignation, Quiksol Group was deconsolidated from the consolidated financial statements of the Group (the “**Deconsolidation**”). After the completion of the Action, the number of representatives of the Group acting as a director of Quiksol HK and a member of the board of Quiksol HK had decreased from three to two, representing a decrease in voting power of the Group from 60% to 40%, based on the composition of board of Quiksol HK with five directors in total.

After the loss of control in Quiksol HK and upon the Deconsolidation, the Group will continue to hold 25% equity interests in Quiksol HK. As communicated with the auditors of the Company, the Directors are given to understand that, in accordance with the Hong Kong Financial Reporting Standards (the “**HKFRSs**”), when the Group loses control of Quiksol HK, the Group’s retained interests in Quiksol Group will be accounted as an investment in an associate of the Company in the consolidated financial statements of the Group. For further details of the Action and Deconsolidation, please refer to the announcement of the Company dated 2 January 2024.

During the year ended 31 December 2023, other than the Deconsolidation, there was no major acquisition or disposal by the Company and its subsidiaries.

Employees

As at 31 December 2023, the Group, after the deconsolidation of the Quiksol Group, had 353 employees (31 December 2022: 579 employees), with a majority based in Shenzhen, Suzhou and Hong Kong. Total employee costs for the year ended 31 December 2023, excluding the remuneration of the Directors were approximately HK\$182.6 million (31 December 2022: HK\$331.2 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 2023, no new shares had been subscribed by the Trustee and a total of 4,450,000 shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme and no share were awarded to the employees by the Company pursuant to the Share Award Scheme. During the year, 500,000 shares previously awarded were forfeited as certain terms of the award were not achieved by the awardee. The Group recognised a total of HK\$0.5 million of share-based payment expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023 (2022: HK2.6 million). No share option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme as at 31 December 2023. 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 2023 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 2023.

EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

Up to the date of announcement, the Group has no significant subsequent event after 31 December 2023 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 (the "**CG Code**") contained in Appendix C1 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 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 C3 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 2023.

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 2023 and up to the date of this announcement.

AUDIT COMMITTEE

The Company has established an audit committee, comprising three independent non-executive Directors, namely Dr. Tang Ming Je, Ms. Xu Wei and Dr. Xue Chun. 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 2023 and discussed with the management the accounting policies adopted by the Group and financial reporting matters of the Group.

SCOPE OF WORK OF RSM HONG KONG

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 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, RSM Hong Kong, 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 22 March 2024. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by RSM Hong Kong on the preliminary announcement.

PUBLICATION OF FINAL RESULTS

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.smart-core.com.hk). The annual report of the Company for the year ended 31 December 2023 containing all the information required by the Listing Rules and other applicable laws and regulations will be published on the websites of the Stock Exchange and the Company and physical copies of the annual report will be despatched to the Shareholders upon request in due course.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the “**Annual General Meeting**”) will be held on Friday, 24 May 2024. 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 Tuesday, 21 May 2024 to Friday, 24 May 2024, 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 Monday, 20 May 2024.

For ascertaining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 5 June 2024 to Friday, 7 June 2024, 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, 4 June 2024.

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

Hong Kong, 22 March 2024

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