

SMART-CORE HOLDINGS LIMITED

芯智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2166

INTERIM REPORT
2023



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. TIAN Weidong
(Chairman of the Board and Chief Executive Officer)
Mr. WONG Tsz Leung *(Chief Financial Officer)*
Mr. LIU Hongbing
Mr. MAK Hon Kai, Stanly

Independent Non-executive Directors

Mr. ZHENG Gang
Mr. TANG Ming Je
Ms. XU Wei

BOARD COMMITTEES

Audit Committee

Ms. XU Wei *(Chairlady)*
Mr. ZHENG Gang
Mr. TANG Ming Je

Remuneration Committee

Mr. ZHENG Gang *(Chairman)*
Mr. TIAN Weidong
Mr. TANG Ming Je
Ms. XU Wei

Nomination Committee

Mr. TIAN Weidong *(Chairman)*
Mr. TANG Ming Je
Ms. XU Wei

COMPANY SECRETARY

Mr. YAU Chak Man (ACCA, HKICPA)

AUTHORISED REPRESENTATIVES

Mr. TIAN Weidong
Mr. WONG Tsz Leung

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309
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Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
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88 Queensway, Hong Kong

LEGAL ADVISOR

As to Cayman Islands law

Maples and Calder
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18 Harbour Road
Wanchai
Hong Kong

As to Hong Kong law

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Hong Kong

As to PRC law

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SHARE REGISTRARS

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Hong Kong

Cayman Islands

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Cayman Islands

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

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Hong Kong

Hang Seng Bank Limited
20/F, 83 Des Voeux Road Central
Hong Kong

STOCK CODE

2166

COMPANY WEBSITE

www.smart-core.com.hk

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2023	2022	Change
	HK\$'000	HK\$'000	
Revenue	3,184,637	5,661,548	-43.7%
Gross profit	229,876	677,125	-66.1%
Profit before tax	28,378	362,033	-92.2%
Profit for the period	21,116	299,766	-93.0%
Profit attributable to owners of the Company	12,674	145,230	-91.3%
Earnings per share ("EPS")			
— Basic (HK cents)	2.68	29.78	-91.0%
— Diluted (HK cents)	2.67	29.66	-91.0%
Average turnover days of inventories — days ⁽¹⁾	20	23	-13.0%
Average turnover days of trade receivables — days ⁽²⁾	66	63	4.8%
Average turnover days of trade payables — days ⁽³⁾	26	21	23.8%
	As at	As at	
	30 June	31 December	
	2023	2022	Change
	HK\$'000	HK\$'000	
Total assets	2,823,302	2,860,864	-1.3%
Total liabilities	1,667,723	1,659,941	0.5%
Net assets	1,155,579	1,200,923	-3.8%
Gearing ratio — % ⁽⁴⁾	88.0	87.7	0.3%
Current ratio — times ⁽⁵⁾	1.51	1.57	-3.8%

Notes:

- (1) Average turnover days of inventories is derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant period by cost of sales and multiplying by 181 days.
- (2) Average turnover days of trade receivables is derived by dividing the arithmetic mean of the opening and closing balances of net trade receivables for the relevant period by revenue and multiplying by 181 days.
- (3) Average turnover days of trade payables is derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant period by cost of sales and multiplying by 181 days.
- (4) Gearing ratio was calculated based on the sum of the total interest-bearing borrowings and lease liabilities as at the respective dates divided by total equity as at the respective dates and multiplied by 100%.
- (5) Current ratio was calculated based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of Proceeds	Net proceeds (in HK\$ million)	Utilised during six months ended	Utilised as at	Amount remaining (in HK\$ million)	Expected timeline for utilising the remaining net proceeds (Notes 1 and 2) (in HK\$ million)
		30 June 2023 (in HK\$ million)	30 June 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	(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	–
	<u>205.8</u>	<u>(0.7)</u>	<u>(180.2)</u>	<u>25.6</u>	

Notes:

- 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.
- 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 report, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

EVENTS AFTER 30 JUNE 2023

Up to the date of this report, the Group has no significant subsequent event after 30 June 2023 which requires disclosure.

EMPLOYEE AND EMPLOYEE INCENTIVE SCHEMES

As at 30 June 2023, the Group had 645 employees (as at 30 June 2022: 600), with the majority based in Shenzhen, Suzhou and Hong Kong. Total employee cost for the six months ended 30 June 2023, excluding the remuneration of the directors of the Group were approximately HK\$89.6 million (six months ended 30 June 2022: approximately HK\$172.5 million). There have been no material changes to the information disclosed in the Prospectus in respect 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 of directors of the Company (the “**Board**”) may, from time to time, at its absolute discretion, select any of our directors, senior managers and employees of the Group to participate in the Share Award Scheme (the “**Selected Participants**”), subject to the terms and conditions set out in the Share Award Scheme. In determining the Selected Participants, the Board shall take into consideration matters including, but without limitation, the present and expected contribution of the relevant Selected Participants to the Group.

In relation to the Share Option Scheme, the Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of the Group or associated companies of the Company.

During the six months ended and as at 30 June 2023, no share award or share option had been granted or agreed to be granted by the Company pursuant to the Share Award Scheme and the Share Option Scheme. The Group recognised a total of HK\$0.2 million of share-based payment expenses in the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$1.8 million).

As no share award and share option had been granted during the six months ended 30 June 2023, the number of awarded shares available for grant under the Share Award Scheme at the beginning and the end of the six months ended 30 June 2023 was 37,420,000 and the number of options available for grant under the Share Option Scheme at the beginning and the end of the six months ended 30 June 2023 is 50,000,000.

OTHER INFORMATION

Details of movement of shares awarded under the Share Award Scheme during the six months ended 30 June 2023 were as follows:

Grantee	Date of grant	Number of share awards					Unvested as at 30 June 2023	Closing price of the awarded share immediately before the grant date	Weighted average closing price of the awarded shares immediately before the vesting date
		Unvested as at 1 January 2023	Granted during the period	Vested during the period	Cancelled during the period	Forfeited during the period			
Directors									
Mak Hon Kai Stanly	1 April 2022 ⁽¹⁾	2,000,000	–	500,000	–	500,000 ⁽²⁾	1,000,000	HK\$1.35	HK\$1.76

Notes:

- (1) On 1 April 2022, a total of 3,000,000 awarded shares were granted to Mr. Mak Hon Kai Stanly, an executive Director of our Company. Subject to the terms of the Share Award Scheme and the fulfilment of the vesting conditions specified by the Board, the awarded shares shall be vested in three batches with each 1,000,000 awarded shares by 30 June 2022, 2023 and 2024, respectively.
- (2) During the six months ended 30 June 2023, 500,000 awarded shares were forfeited as the certain terms of the award were not achieved and as such, such awards were not vested.

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.

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS UNDER RULE 13.51B(1) OF THE LISTING RULES

With effect from 22 August 2023, Mr. Zheng Gang has resigned as an executive director of the Good Fellow Healthcare Holdings Limited (formerly known as Hua Xia Healthcare Holdings Limited), a company listed on the Stock Exchange (stock code: 8143).

Save as disclosed above, there is no other material changes in the Directors' biographical details which are required to be disclosed pursuant to rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") since the date of 2022 annual report of the Company and up to the date of this report.

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).

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 report, 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.

OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2023, the interests and short positions of our Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO; or are required, pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Number of Shares held</u>	<u>Approximate shareholding percentage⁽⁴⁾</u>
Mr. Tian Weidong ⁽¹⁾	Interest in a controlled corporation	262,500,000 (L)	53.72%
Mr. Wong Tsz Leung ⁽²⁾	Interest in a controlled corporation	52,500,000 (L)	10.74%
Mr. Liu Hongbing	Beneficial owner	37,500,000 (L)	7.67%
Mr. Mak Hon Kai, Stanly ⁽³⁾	Beneficial owner	1,500,000 (L)	0.2%

Notes:

- (1) Smart IC Limited is wholly owned by Mr. Tian Weidong. Therefore, Mr. Tian is deemed to be interested in all the shares held by Smart IC Limited.
 - (2) Insight Limited is wholly owned by Mr. Wong Tsz Leung. Therefore, Mr. Wong is deemed to be interested in all the shares held by Insight Limited.
 - (3) Mr. Mak is interested in 2,500,000 shares in terms of that the Company granted him 3,000,000 shares under the Share Award Scheme, of which 1,500,000 shares have been vested, 500,000 shares were forfeited as certain terms of the award were not achieved.
 - (4) Based on 488,681,030 shares in issue as at 30 June 2023.
- (L) represents long positions.

Save as disclosed in this report, as at 30 June 2023, none of the Directors nor their associates had any interests or short positions in any share, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENTS AND CONTRACTS

No transactions, arrangements or contracts of significance, to which the Company, or its holding companies, subsidiaries or fellow subsidiaries was a party and in which the Director or the Director's connected entity had a material interest, whether directly or indirectly, subsisted at the end or at any time during the six months ended 30 June 2023.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed below, during the six months ended 30 June 2023, none of the Directors has an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

In order to ensure that direct competition does not develop between the Group and each of Mr. Tian and Smart IC Limited (the "**Controlling Shareholders**")'s other activities, our Controlling Shareholders have entered into the deed of non-competition dated 19 September 2016 executed by controlling shareholders in favour of the Company (the "**Deed of Non-competition**"). Under the Deed of Non-competition, each of our Controlling Shareholders had undertaken to the Company (for ourselves and for the benefit of our subsidiaries) that, save for the Retained Business (as defined in the Prospectus), they will not, and they will use their best endeavours to procure that their respective close associates (except any members of the Group) will not, whether directly or indirectly (including through anybody corporate, partnership, joint venture or other contractual arrangement and for projects or otherwise) or as principal or agents, and whether on their own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any member of the Group), carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition with the business of any member of the Group, the details of which are set out in the Prospectus.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARE

As at 30 June 2023, so far as the Directors are aware, the following persons have interests or short positions in the shares or underlying shares of the Company, as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

<u>Name of shareholders</u>	<u>Nature of Interest</u>	<u>Number of Shares held</u>	<u>Approximate shareholding percentage⁽³⁾</u>
Mr. Tian Weidong ⁽¹⁾	Interest in a controlled corporation	262,500,000 (L)	53.72%
Mr. Wong Tsz Leung ⁽²⁾	Interest in a controlled corporation	52,500,000 (L)	10.74%
Mr. Liu Hongbing	Beneficial owner	37,500,000 (L)	7.67%

Notes:

- (1) Smart IC Limited is wholly owned by Mr. Tian Weidong. Therefore, Mr. Tian is deemed to be interested in all the shares held by Smart IC Limited.
- (2) Insight Limited is wholly owned by Mr. Wong Tsz Leung. Therefore, Mr. Wong is deemed to be interested in all the shares held by Insight Limited.
- (3) Based on 488,681,030 shares in issue as at 30 June 2023.
- (L) Represents long positions.

Save as disclosed above, as at 30 June 2023, the Company had not been notified by any persons who had any interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Division 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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 REPORT

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 has been despatched to the Shareholders and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.smart-core.com.hk).

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their continuous support and contributions. The Board would also take this opportunity to thank all of our Shareholders, investors, customers, auditors and business partners for their faith in the prospects of the Group.

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

Hong Kong, 25 August 2023

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF SMART-CORE HOLDINGS LIMITED

芯智控股有限公司

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Smart-Core Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 23 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2023 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

25 August 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	NOTES	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (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	4	20,752	4,733
Other gains or losses, net	5	(4,498)	(20,596)
Impairment losses (recognised) reversed under expected credit loss model, net	6	(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	7	28,378	362,033
Income tax expense	8	(7,262)	(62,267)
Profit for the period		21,116	299,766
Other comprehensive expense			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
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
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)	10	2.68	29.78
Diluted (HK cents)	10	2.67	29.66

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	11	16,278	15,118
Right-of-use assets	11	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")	19	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	13	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	21b	–	118
Trade and bills receivables	12	1,104,969	1,212,520
Deposits, prepayments and other receivables	13	116,121	129,114
Pledged bank deposits	14	493,613	457,286
Cash and cash equivalents	14	425,463	494,405
		2,503,432	2,581,831
CURRENT LIABILITIES			
Trade payables	15	510,733	350,674
Other payables and accrued charges	16	96,432	167,130
Lease liabilities		12,136	14,100
Contract liabilities		40,155	33,575
Amount due to an associate	21b	2,278	–
Amounts due to non-controlling shareholders of a subsidiary	21b	–	33,053
Tax liabilities		1,006	21,917
Bank and other borrowings	17	993,236	1,025,519
		1,655,976	1,645,968
NET CURRENT ASSETS		847,456	935,863
TOTAL ASSETS LESS CURRENT LIABILITIES		1,167,326	1,214,896

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 LIABILITIES			
Deferred tax liability		132	329
Lease liabilities		4,352	8,937
Bank and other borrowings	17	7,263	4,707
		<u>11,747</u>	<u>13,973</u>
NET ASSETS			
		<u>1,155,579</u>	<u>1,200,923</u>
CAPITAL AND RESERVES			
Share capital	18	38	38
Reserves		843,322	873,328
		<u>843,360</u>	<u>873,366</u>
Equity attributable to owners of the Company		843,360	873,366
Non-controlling interests		312,219	327,557
		<u>1,155,579</u>	<u>1,200,923</u>
TOTAL EQUITY			

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (note a)	Statutory reserve HK\$'000 (note b)	Exchange reserve HK\$'000	Treasury share reserve HK\$'000 (note c)	Share award reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2022 (Audited)	38	211,541	14,051	9,919	7,261	(381)	-	1	563,557	805,987	236,888	1,042,875
Profit for the period	-	-	-	-	-	-	-	-	145,230	145,230	154,536	299,766
Exchange differences arising on translation of foreign operations	-	-	-	-	(7,432)	-	-	-	-	(7,432)	(103)	(7,535)
Share of other comprehensive expense of an associate	-	-	-	-	(1,536)	-	-	-	-	(1,536)	-	(1,536)
Profit and total comprehensive (expense) income recognised for the period	-	-	-	-	(8,968)	-	-	-	145,230	136,262	154,433	290,695
Transfer to statutory reserves	-	-	-	488	-	-	-	-	(488)	-	-	-
Dividends recognised as distribution (Note 9)	-	(39,094)	-	-	-	-	-	-	-	(39,094)	-	(39,094)
Shares repurchased and not yet cancelled (Note 18)	-	-	-	-	-	(7,779)	-	-	-	(7,779)	-	(7,779)
Recognition of equity-settled share-based expense (Note 22)	-	-	-	-	-	-	1,796	-	-	1,796	-	1,796
Share vested under share award scheme (Note 22)	-	-	-	-	-	1,632	(1,370)	-	(262)	-	-	-
Acquisition of equity interest in a subsidiary	-	-	-	-	-	-	-	-	(843)	(843)	552	(291)
Distribution paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(32,175)	(32,175)
At 30 June 2022 (Unaudited)	38	172,447	14,051	10,407	(1,707)	(6,528)	426	1	707,194	896,329	359,698	1,256,027
At 1 January 2023 (Audited)	38	153,398	14,051	13,812	(5,356)	(27,167)	1,279	1	723,310	873,366	327,557	1,200,923
Profit for the period	-	-	-	-	-	-	-	-	12,674	12,674	8,442	21,116
Exchange differences arising on translation of foreign operations	-	-	-	-	(6,361)	-	-	-	-	(6,361)	(380)	(6,741)
Share of other comprehensive expense of an associate	-	-	-	-	(1,345)	-	-	-	-	(1,345)	-	(1,345)
Profit and total comprehensive (expense) income recognised for the period	-	-	-	-	(7,706)	-	-	-	12,674	4,968	8,062	13,030
Transfer to statutory reserves	-	-	-	132	-	-	-	-	(132)	-	-	-
Dividends recognised as distribution (Note 9)	-	(28,262)	-	-	-	-	-	-	-	(28,262)	-	(28,262)
Shares repurchased and not yet cancelled (Note 18)	-	-	-	-	-	(6,879)	-	-	-	(6,879)	-	(6,879)
Recognition of equity-settled share-based expense (Note 22)	-	-	-	-	-	-	167	-	-	167	-	167
Share vested under share award scheme (Note 22)	-	-	-	-	-	918	(685)	-	(233)	-	-	-
Distribution paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(23,400)	(23,400)
At 30 June 2023 (Unaudited)	38	125,136	14,051	13,944	(13,062)	(33,128)	761	1	735,619	843,360	312,219	1,155,579

Notes:

- Other reserve represents (i) the combined share capital of Smart-Core International Company Limited and Smart-Core Technology Investment Limited acquired by the Company at the time of the group reorganisation in 2015; and (ii) the difference between the carrying amounts of the non-controlling interest at acquisition date and the consideration paid to acquire the additional interests in subsidiaries.
- Pursuant to the relevant laws in the People's Republic of China (the "PRC"), the Group's subsidiaries established in the PRC is required to transfer 10% of its profit after tax as per statutory financial statements to the reserve funds. The general reserve fund is discretionary when the fund balance reaches 50% of the registered capital of the subsidiary and can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the subsidiary.
- Treasury share reserve represents (i) Ordinary shares purchased by Computer Share Hong Kong Trustees Limited ("Trustee") from the market pursuant to the share award scheme of the Company for those unlisted awarded shares and ungranted shares; and (ii) shares repurchased but not yet cancelled from the year ended 31 December 2021 to the period ended 30 June 2023.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	69,452	461,268
Increase in inventories	(80,480)	(62,309)
Decrease in trade receivables	107,718	13,870
Increase in trade payables	160,059	91,224
Other operating cash flows	(50,901)	(60,045)
	<u>205,848</u>	<u>444,008</u>
Cash from operations		
Income tax paid	(28,435)	(20,500)
	<u>177,413</u>	<u>423,508</u>
NET CASH FROM OPERATING ACTIVITIES		
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,755)	(5,052)
Proceeds from disposal of property, plant and equipment	18	308
Acquisition of equity interest in a subsidiary	–	(291)
Purchase of financial assets at FVTPL	(11,700)	–
Purchase of equity instrument at FVTOCI	(40,907)	–
Interest received	10,905	1,308
Placement of pledged bank deposits	(205,011)	(3,969)
Withdrawal of pledged bank deposits	168,684	–
	<u>(81,766)</u>	<u>(7,696)</u>
NET CASH USED IN INVESTING ACTIVITIES		
FINANCING ACTIVITIES		
New bank and other borrowings raised	3,034,399	5,346,009
Repayment of bank and other borrowings	(3,064,126)	(5,431,489)
Dividend paid	(28,262)	(39,094)
Distribution paid to non-controlling interests	(23,400)	(32,175)
Interest paid	(31,554)	(35,807)
Advance from non-controlling shareholders of a subsidiary	–	33,245
Repayment to non-controlling shareholders of a subsidiary	(33,053)	(11,770)
Repayments of lease liabilities	(8,049)	(7,325)
Payment for repurchase of shares	(6,879)	(7,779)
	<u>(160,924)</u>	<u>(186,185)</u>
NET CASH USED IN FINANCING ACTIVITIES		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		
	<u>(65,277)</u>	<u>229,627</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		
	494,405	290,931
Effect of foreign exchange rate changes	(3,665)	(6,882)
	<u>425,463</u>	<u>513,676</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Represented by bank balances and cash		
	<u>425,463</u>	<u>513,676</u>

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3A. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Types of goods:		
Sale of electronic components	3,184,637	5,661,548
Sales channel/product lines:		
<i>Authorised distribution</i>		
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
<i>Independent distribution</i>	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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3A. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

Disaggregation of revenue from contracts with customers (continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3B. OPERATING SEGMENT (continued)

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)	–
	<u>2,653,947</u>	<u>537,079</u>	<u>3,191,026</u>	<u>(6,389)</u>	<u>3,184,637</u>
Segment profit (loss)	<u>24,609</u>	<u>(2,205)</u>	<u>22,404</u>	<u>–</u>	<u>22,404</u>
* 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					<u>(2,269)</u>
Profit for the period					<u>21,116</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3B. OPERATING SEGMENT (continued)

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)	–
	<u>3,734,990</u>	<u>2,003,605</u>	<u>5,738,595</u>	<u>(77,047)</u>	<u>5,661,548</u>
Segment profit	<u>76,620</u>	<u>232,709</u>	<u>309,329</u>	<u>–</u>	<u>309,329</u>
* 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					<u>(3,327)</u>
Profit for the period					<u>299,766</u>

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

4. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	9,765	224
Technical support services income	3,210	2,372
Reversal of tax charge penalty	4,024	–
Government grants (note)	1,839	1,447
Others	1,914	690
	20,752	4,733

Note: The government grants represent subsidies received from the relevant HK and PRC government for improvement of working capital and incentive subsidies received in relation to trading activities carried out by the Group.

5. OTHER GAINS OR LOSSES, NET

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Foreign exchange loss, net	(6,152)	(16,733)
Fair value gain (loss) on financial assets at FVTPL	1,680	(4,144)
(Loss) gain on disposal on property, plant and equipment	(21)	281
Loss on early termination of lease	(5)	–
	(4,498)	(20,596)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

6. IMPAIRMENT LOSSES (RECOGNISED) REVERSED UNDER EXPECTED CREDIT LOSS (“ECL”) MODEL, NET

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Impairment losses (recognised) reversed in respect of		
— trade receivables	(640)	22,389
— bill receivables	473	(136)
	(167)	22,253

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2023 for assessment of ECL are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2022.

At 30 June 2023, the directors of the Company are of the opinion that the ECL on other financial assets subject to ECL is insignificant.

7. 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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

8. 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

The Company was incorporated in the Cayman Islands and is exempted from income tax.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity is taxed at 8.25%, and profits above HK\$2 million is taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million. For the remaining subsidiaries of the Group in Hong Kong, they are subject to 16.5% of the estimated assessable profits under Hong Kong Profits Tax.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of The EIT Law, the tax rate of entities established in the PRC is 25% for both periods. As 深圳市芯智科技有限公司 ("SMC Technology SZ") has been accredited as a "High and New Technology Enterprise" by the relevant authorities in Shenzhen for a term of extension of three years in will be expired in 2026, it is entitled to a reduced tax rate of 15%. Accordingly, the PRC EIT is calculated at 15% on the assessable profit of SMC Technology SZ for both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

8. INCOME TAX EXPENSE (continued)

Singapore CIT has been provided at the rate of 17% on the estimated assessable profits.

Withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. At 30 June 2023, the aggregate amount of distributable earnings for the Group's PRC subsidiaries in respect of which the Group has not provided for dividend withholding tax amounted to HK\$55,655,000 (31 December 2022: HK\$46,966,000). No liability has been recognised in respect of these amounts because the Group is in a position in control of the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

9. 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).

10. 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	<u>12,674</u>	<u>145,230</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

10. EARNINGS PER SHARE (continued)

	Six months ended 30 June	
	2023 (Unaudited)	2022 (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.

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group disposed furniture and fixtures with an aggregate carrying amount of HK\$39,000 (six months ended 30 June 2022: HK\$27,000) for proceeds of HK\$18,000 (six months ended 30 June 2022: HK\$308,000), resulting a loss on disposal of HK\$21,000 (six months ended 30 June 2022: gain on disposal of HK\$281,000).

In addition, during the current interim period, the Group paid approximately HK\$3,755,000 (six months ended 30 June 2022: HK\$5,052,000) to acquire furniture and fixtures.

The Group entered into several new lease agreements with lease terms ranged from 1 year to 3 years (six months ended 30 June 2022: 1 to 5 years). The Group is required to make fixed monthly payments. On lease commencement, the Group recognised approximately HK\$2,079,000 (six months ended 30 June 2022: HK\$3,252,000) of right-of-use assets and approximately HK\$2,079,000 (six months ended 30 June 2022: HK\$3,252,000) of lease liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

12. TRADE AND BILLS RECEIVABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade receivables	1,124,249	1,212,970
Less: allowance for credit losses	(22,755)	(23,172)
Bills receivables	3,556	23,278
Less: allowance for credit losses	(81)	(556)
	<u>1,104,969</u>	<u>1,212,520</u>

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 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade receivables		
0–60 days	848,199	823,528
61–120 days	238,776	321,450
Over 120 days	14,519	44,820
	<u>1,101,494</u>	<u>1,189,798</u>
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 with full recourse. The Group continues to recognise their full carrying amount at the end of reporting period and details are disclosed below.

As at 30 June 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK\$426,533,000 (31 December 2022: HK\$426,533,000) which are past due as at the reporting date. Out of the past due balances, HK\$27,124,000 (31 December 2022: HK\$27,124,000) has been past due 90 days or above, for which the Group does not consider the balances in default as there has not been a significant change in the credit quality and amounts are still considered recoverable based on historical experience.

As at 30 June 2023, other than bills received amounting to HK\$3,475,000 (31 December 2022: HK\$22,722,000), the Group does not hold any collateral or other credit enhancements over those balances nor does it have a legal right of offset against any amounts owned by the Group to the counterparty.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Deposits		
— refundable	5,678	5,350
— non-refundable	90,933	112,130
Prepayments	6,268	7,498
Other receivables	3,025	1,891
Value-added tax recoverable	12,487	4,621
	118,391	131,490
Analysed as:		
Non-current	2,270	2,376
Current	116,121	129,114
	118,391	131,490

14. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

The pledged bank deposits of the Group are pledged to banks for securing import and export loans and other bank borrowings (Note 17). The bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

The pledged bank deposits/bank balances carry interest at market rates as follows:

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Range of interest rate per annum:		
Pledged bank deposits	0.01%–4.90%	0.01%–4.00%
Bank balances	0.001%–0.40%	0.001%–0.40%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

15. 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 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (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

As at 30 June 2023, included in the trade payables is nil (31 December 2022: HK\$34,929,000), in which the Group issued bills to relevant creditors for settlement and remained outstanding at the end of the reporting period.

16. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Accrued purchases	16,214	17,035
Accrued staff costs	71,485	120,344
Accrued expenses	5,664	19,482
Other payables	3,069	10,269
	96,432	167,130

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

17. BANK AND OTHER BORROWINGS

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

17. BANK AND OTHER BORROWINGS (continued)

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 periods.

The ranges of effective interest rates (which are also equal to contracted interest rates) on Group borrowings are as follows:

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Effective interest rate:		
Import and export loans		
— variable rates	4.52%–7.61%	1.77%–7.88%
— fixed rates	2.50%–6.25%	2.50%–4.25%
Other borrowings:		
— fixed rates	–	4.90%–6.50%

18. SHARE CAPITAL

	Number of shares	Amount US\$'000
Ordinary shares of US\$0.00001 each		
Authorised:		
At 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	5,000,000,000	50
Issued and fully paid:		
At 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	488,681,030	5

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

18. SHARE CAPITAL (continued)

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Shown in the financial statements as	38	38

During the six months ended 30 June 2023, the Company, through the Trustees repurchased 3,550,000 (30 June 2022: 4,750,000) ordinary shares for an aggregate consideration of HK\$6,879,000 (30 June 2022: HK\$7,779,000) from the market pursuant to the share award scheme of the Company, which has been recognised under treasury share reserve as at 30 June 2023. 3,000,000 ordinary shares under share award scheme have been granted to a director as RSUs as details set out in Note 22 during the six months ended 30 June 2022. 500,000 RSUs (30 June 2022: 1,000,000 RSUs) have been vested and HK\$918,000 (30 June 2022: HK\$1,632,000) has been released from treasury share reserve during the six months ended 30 June 2023.

As at 30 June 2023, 18,400,000 (31 December 2022: 14,850,000) ordinary shares were held by the Trustees under the share award scheme.

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group establishes the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the directors of the Company every half year to explain the cause of fluctuations in the fair value of the assets.

The fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements and valuation processes (continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis.

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30 June 2023 (Unaudited)	31 December 2022 (Audited)			
Financial assets at FVTPL	Unlisted trust funds HK\$38,956,000	Unlisted trust funds HK\$39,318,000	Level 2	Based on the net asset values of the funds, determined with reference to the observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	Nil
	Unlisted limited partnerships HK\$3,230,000	Unlisted limited partnerships HK\$3,380,000	Level 2	The fair values of unlisted limited partnerships are determined with reference to the recent transaction price of the investments.	Nil
	Unlisted equity securities HK\$1,076,000	Unlisted equity securities HK\$1,128,000	Level 2	The fair values of unlisted equity securities are determined with reference to the recent transaction price of the investments.	Nil
	Life insurance policies HK\$125,544,000	Life insurance policies HK\$113,721,000	Level 3	Based on account values of the policies which represents the premium paid to the policies adjusted by net yield with reference to the expected return rate.	The significant unobservable input is expected return rate and assuming other inputs are held constant, if the expected return rate increases, the fair value of the policies increases and vice versa. In the opinion of the directors of the Company, the change of expected return rate of the policies is insignificant based on historical record.
	<u>HK\$168,806,000</u>	<u>HK\$157,547,000</u>			
Equity instrument at FVTOCI (note)	Unlisted equity investment HK\$40,907,000		Level 2	The fair value of the investment is Nil determined with reference to the recent transaction price of the investment.	
	<u>HK\$40,907,000</u>				

Note: During the six months ended 30 June 2023, the Group invested RMB38,000,000 (equivalent to approximately HK\$40,907,000) for 1.79% of equity interest of a company established in the PRC which is engaged in trading of electronic components. There is no change in fair value between the date of acquisition and 30 June 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements and valuation processes (continued)

There were no transfers between Level 1, 2 and 3 for both periods.

Reconciliation of Level 3 fair value measurements of financial asset

	Life insurance policies HK\$'000
At 1 January 2022 (audited)	99,788
Total gain in profit or loss	<u>1,261</u>
At 30 June 2022 (unaudited)	<u>101,049</u>
At 1 January 2023 (audited)	113,721
Addition	11,700
Total gain in profit or loss	<u>123</u>
At 30 June 2023 (unaudited)	<u>125,544</u>

Required for Level 3 recurring fair value measurement only

Of the total gains or losses for the period included in profit or loss, a gain of HK\$123,000 relates to financial assets at FVTPL held at the end of current reporting period (six months ended 30 June 2022: HK\$1,261,000). Fair value gains or losses on financial assets at FVTPL are included in "other gains or losses, net".

20. PLEDGE OF ASSETS

The Group's bank borrowings and bills issued to relevant creditors had been secured by the pledge of the Group's assets and the carrying amounts of the respective assets are as follows:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Financial assets at FVTPL	164,500	153,039
Pledged bank deposits	<u>493,613</u>	<u>457,286</u>
	<u>658,113</u>	<u>610,325</u>

In addition, bank borrowings and bills issued to relevant creditors are also secured by personal guarantee from a non-controlling shareholder for both periods and certain trade receivables featured to banks for both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

21. RELATED PARTIES DISCLOSURE

(a) Transactions

The Group had the following transactions with related party during the period:

Name of related party	Note	Nature of transactions	Six months ended 30 June	
			2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
上海宙錄光電有限公司	(i)	Sale of goods	568	–
Galasemi (Shanghai) Co., Ltd.*		Purchase of goods	(2,988)	–

Note:

(i) An associate of the Company.

* English name for identification only.

(b) Balances

Amounts with an associate

The amount is trade nature with credit period of 60 days, unsecured and interest-free. The entire balance is aged within 30 days as at 30 June 2023 and 31 December 2022.

Amounts due to non-controlling shareholders of a subsidiary

As at 31 December 2022, the entire balance represents the dividend payables to 2 non-controlling shareholders of a subsidiary, which were non-trade nature, unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management was as follows:

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Short term benefits	2,633	5,426
Post-employment benefits	45	45
	2,678	5,471

The remuneration of key management personnel is determined by the management of the Company having regard to the performance of individuals and market trends.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

22. SHARE-BASED PAYMENTS

During the six months ended 30 June 2022, the Group granted RSUs to a Group's director under the share award scheme adopted pursuant to an ordinary resolution of the shareholders passed on 19 September 2016 ("**Share Award Scheme**"). The RSUs granted would vest on specific dates, or in equal tranches from the grant date over 3 to 27 months, on condition that the director remains in service with performance requirements. Once the vesting conditions underlying the respective RSUs are met, the RSUs are considered duly and validly issued to the holder, and free of restrictions on transfer.

Movements in the number of RSUs granted to the Group's director and the respective weighted average grant date fair value are as follows:

	Number of RSUs	Weighted average fair value per RSU
Outstanding as at 1 January 2022	–	–
Granted during the period	3,000,000	HK\$1.37
Vested during the period	<u>(1,000,000)</u>	<u>HK\$1.37</u>
Outstanding as at 1 January 2023	2,000,000	HK\$1.37
Forfeited during the period	(500,000)	HK\$1.37
Vested during the period	<u>(500,000)</u>	<u>HK\$1.37</u>
Outstanding as at 30 June 2023 (unaudited)	<u>1,000,000</u>	<u>HK\$1.37</u>

The fair value of RSUs is determined based on the closing price of the Group's publicly traded ordinary shares on the date of grant.

Only 500,000 RSUs vested during the current interim period as the holder only fulfilled the partial performance requirements.

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the RSUs (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses charged to the condensed consolidated income statement. As at 30 June 2023, the Expected Retention Rate for the Group's director was assessed to be 100%.

The total expenses recognised in the condensed consolidated statement of profit or loss and other comprehensive income for share-based awards granted to the Group's director are HK\$167,000 for the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$1,796,000).

SMART-CORE HOLDINGS LIMITED
芯智控股有限公司