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芯智控股有限公司
Smart-Core Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2166)

INSIDE INFORMATION
DECONSOLIDATION OF THE QUIKSOL GROUP

This announcement is issued by Smart-Core Holdings Limited (the “**Company**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

The Board wishes to inform the shareholders of the Company and potential investors that, under the Group’s strategic plan and, with a view to focus the Company’s resources on the authorised distribution business, one of the representatives of the Group had ceased to act as a director of Quiksol HK and a member of the Quiksol HK Board with effect from 31 December 2023. To the best knowledge, information and belief of the Directors having made all reasonable enquires, since the Group will no longer control the majority of the Quiksol HK Board upon the resignation, Quiksol Group shall be deconsolidated from the consolidated financial statements of the Group. The Directors are of the view that the Group will benefit from the Deconsolidation by avoiding to incur unnecessary costs including, among others, legal and professional fees, staff costs and the relevant benefit expenses, and other administrative expenses. Smart IC Cloud and the Four Shareholders had entered into a new shareholders’ agreement in replacement of the existing SHA and the articles of association of Quiksol HK had also been revised to reflect the changes brought by the Deconsolidation and the Action.

The Deconsolidation does not involve any consideration, nor change in shareholding in Quiksol HK. It is expected that the revenue of the Group will be decreased after the Deconsolidation due to the exclusion of Quiksol Group’s revenue. The Deconsolidation however are not expected to result in any material changes to the Group’s equity attributable to the shareholders of the Company and the profit attributable to shareholders of the Company.

Shareholders and potential investors of the Company are advised to exercise caution in dealing in the shares of the Company.

INTRODUCTION

This announcement is issued by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company dated 22 October 2018 and 31 October 2018 in relation to the acquisition of 25% of the issued shares of Quiksol HK, the financial statements of which have been consolidated into the Group since then due to the effective control by the Group over Quiksol Group through controlling the Quiksol HK Board.

The Board wishes to inform the shareholders of the Company and potential investors that, under the Group's strategic plan and, with a view to focus the Company's resources on the authorised distribution business, one of the representatives of the Group had ceased to act as a director of Quiksol HK and a member of the Quiksol HK Board with effect from 31 December 2023. To the best knowledge, information and belief of the Directors having made all reasonable enquires, since the Group will no longer control the majority of the Quiksol HK Board upon the resignation, Quiksol Group shall be deconsolidated from the consolidated financial statements of the Group. The Directors are of the view that the Group will benefit from the Deconsolidation by avoiding to incur unnecessary costs including, among others, legal and professional fees, staff costs and the relevant benefit expenses, and other administrative expenses. Smart IC Cloud and the Four Shareholders had entered into a new shareholders' agreement in replacement of the existing SHA and the articles of association of Quiksol HK had also been revised to reflect the changes brought by the Deconsolidation and the Action.

THE ACTION AND THE DECONSOLIDATION

The Action

One of the representatives of the Group had ceased to act as a director of Quiksol HK and a member of the Quiksol HK Board with effect from 31 December 2023. To the best knowledge, information and belief of the Directors having made all reasonable enquires, since the Group will no longer control the majority of the Quiksol HK Board upon the resignation, Quiksol Group shall be deconsolidated from the consolidated financial statements of the Group. After the completion of the Action, the number of representatives of the Group being act as a director of Quiksol HK and a member of the Quiksol HK Board had decreased from three representatives to two representatives, representing a decrease in voting power of the Group from 60% to 40%, based on composition of Quiksol HK Board with five directors in total.

Smart IC Cloud and the Four Shareholders had entered into a new shareholders' agreement in replacement of the existing SHA and the articles of association of Quiksol HK had also been revised to reflect the changes brought by the Deconsolidation and the Action.

The Deconsolidation

After the said Action, the Quiksol Group will cease to be subsidiaries of the Company, and the financial results of the Quiksol Group will no longer be consolidated into the accounts of the Group and Quiksol HK will become an associate of the Company, and its financial results will be equity accounted for in the financial statements of the Company. The Deconsolidation does not involve any consideration, nor change in shareholding of Quiksol HK.

FINANCIAL EFFECT OF THE ACTION AND THE DECONSOLIDATION

The Deconsolidation does not involve any consideration, nor change in shareholding of Quiksol HK. It is expected that the revenue of the Group will be decreased after the Deconsolidation due to the exclusion of the Quiksol Group's revenue. Other than the one-off fair value adjustment upon the Deconsolidation as stated below, the Deconsolidation is not expected to result in any future material changes to the Group's equity attributable to the shareholders of the Company and the profit attributable to shareholders of the Company.

After the loss of control in Quiksol HK and upon the Deconsolidation, the Group will remain to hold 25% equity interests in Quiksol HK. As communicated with the auditor of the Company, the Directors are given to understand that, in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs"), when the Group loses control of Quiksol HK, the Group's retained interests in Quiksol Group will be accounted as an investment in an associate of the Company in the consolidated financial statements of the Group.

In accordance with the HKFRSs, when the Group loses control of the Quiksol Group, the assets and liabilities of the Quiksol Group and non-controlling interests will be derecognised from the Group's consolidated financial statements. A gain or loss will be recognised in the Group's profit or loss, representing the difference between (i) the aggregate of the fair value of the consideration received (if any) and the fair value of any retained interest in the Quiksol Group; and (ii) the carrying amount of the assets (including goodwill), and liabilities of the Quiksol Group that were attributable to the owners of the Company immediately before the Action and the Deconsolidation. The fair value of any investment retained in the former subsidiary (the Quiksol Group) as at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate.

After the Deconsolidation, the results and assets and liabilities of the Quiksol Group will be incorporated in the Group's consolidated financial statements using the equity method of accounting, under which an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate.

The Directors understand that the major potential financial impacts to the Group after the Deconsolidation include (i) the assets and liabilities and non-controlling interest of the Quiksol Group will be derecognised from the date of the Deconsolidation; (ii) income and expenses of the Quiksol Group are excluded in the consolidated statements of profit or loss and other comprehensive income of the Group from the date of Deconsolidation; and (iii) starting from the date of the Deconsolidation, the Group will apply equity method of accounting to pick up their interest in the Quiksol Group and to account for their share of any profit or loss of the Quiksol Group.

The Group will estimate the fair value of the retained interest in the Quiksol Group with the assistance of an independent professional valuer. Based on the financial position of the Quiksol Group as at 30 June 2023, it is estimated that as a result of the Action and the Deconsolidation, the Company is expected to record a gain of approximately HK\$0.2 million, which is calculated based on the estimated fair value of 25% equity interest of the Quiksol Group as at 30 June 2023 amounted to approximately HK\$114.4 million, less the estimated 25% of net asset value of the Quiksol Group amounted to approximately HK\$114.2 million. Moreover, the Quiksol Group will cease to be subsidiaries of the Company, and the financial results of the Quiksol Group will no longer be consolidated into the financial statements of the Group. As a result, it is expected to contribute results of (i) a decrease in the total assets of the Group by approximately HK\$406.6 million; (ii) a decrease in total liabilities of the Group by approximately HK\$93.6 million; (iii) a decrease in non-controlling interests of the Group by approximately HK\$313.3 million; and (iv) an increase in the equity attributable to the owners of the Company by approximately HK\$0.2 million.

The aforementioned financial impact of the Deconsolidation to the Group is disclosed for illustrative purpose only and the actual amount of gain or loss as a result of the Deconsolidation to be recorded by the Company will be subject to the review and audit by the auditors of the Company in annual audit.

REASONS FOR AND BENEFIT OF ENTERING INTO THE ACTION AND THE DECONSOLIDATION

The Group is a leading all-round distributor of integrated circuit and other electronic components and technology value-added service provider in the PRC, covering multiple business segments such as authorised distribution, independent distribution, value-added technology, e-commerce platform, and design and manufacturing of optical communication chips. Taking into account of the reasons below, the Directors consider that the Action and the Deconsolidation will be benefit to the Company and its shareholders:

(i) Recent financial performance of the Quiksol Group

Set out below are the unaudited consolidated financial information of the Quiksol Group for each of the two years ended 31 December 2022 and the six months ended 30 June 2022 and 2023 which are prepared in accordance with HKFRSs:

	For the year ended 31 December		For the six months ended 30 June	
	2021	2022	2022	2023
	<i>Approximately</i> <i>HK\$'million</i> (audited)	<i>Approximately</i> <i>HK\$'million</i> (audited)	<i>Approximately</i> <i>HK\$'million</i> (unaudited)	<i>Approximately</i> <i>HK\$'million</i> (unaudited)
Revenue	2,592.5	2,790.4	1,764.7	428.2
Gross profit	530.7	650.8	416.9	91.2
Profit before tax	289.3	344.2	250.3	17.4
Profit the year/period	241.0	289.1	207.9	11.8

As at 30 June 2023, the unaudited consolidated net asset value of the Quiksol Group was approximately HK\$417.0 million.

The financial performance of the Quiksol Group saw a downturn in revenue of approximately 75.7% from approximately HK\$1,764.7 million for the six months ended 30 June 2022 to HK\$428.2 million for the six months ended 30 June 2023, and a decline in the profit of approximately 94.3% from approximately HK\$207.9 million for the six months ended 30 June 2022 to HK\$11.8 million for the six months ended 30 June 2023, mainly attributable to the fact that 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.

(ii) Strategic business restructuring

The Directors note that there is relocation/expansion of manufacturing facilities from the PRC to other parts of Asia, such as India, Vietnam, Singapore and Indonesia, which in turn increase the estimated demand for authorised distributor of IC products in those areas. After years of effort, providing suitable IC products in the PRC by the Group had been recognised by the market, and therefore the Group could be beneficial by exporting IC products in the PRC to the manufacturers in other parts of the Asia under the authorised distribution business and the Group is optimistic about the order status. Therefore, the Group has to allocate its resources to cope with such change including but not limited to negotiation with several IC brand owners and manufacturers in other parts of Asia for business opportunities and execution of the Group's authorised distribution business in those areas.

Besides, given the downturn in financial performance of the Quiksol Group, the Group plans to withdraw resources devoted in the Quiksol Group, including human resources and time cost for business, operating and financial management, and strengthen the resources on the new development of the authorised distribution business as stated above, including the departure of one of the representatives of the Group in the Quiksol HK Board, i.e. the Action. In light of the streamlined manpower, it is in the interest of the Company and its shareholders that the Group allocates more resources on business with higher business potential and returns.

With the limits to the Group's available human resources as a result of the cost optimisation activities, the representatives of the Group in Quiksol HK will need to focus on the development of the Group's authorised distribution business other than the Quiksol Group and therefore will no longer be able to discharge her fiduciary duties, and duties of skill, care and diligence to a sufficiently high standard as a director of Quiksol HK and a member of the Quiksol HK Board. Given the same reason, the Group considers it is not cost effective to assign another representative to the Quiksol HK Board.

Based on the calculation of the Company and for illustration purpose only, barring unforeseen circumstances and taking into consideration the proportional decrease in human resources and time cost devoted in business, operating and financial management of the Quiksol Group and the financial results of the Quiksol Group will no longer be consolidated into the consolidated financial statements of the Group, the amount of unnecessary cost to be save due to the business structuring is estimated to be not less than HK\$10.8 million on an annual basis.

After considering the latest business environment, the Directors plan to focus the Company's resources on the authorised distribution business, rather than continue to devote resources to the independent distribution business, which the Quiksol Group forms part of it.

After the loss of control in Quiksol HK and upon the Deconsolidation, the Group will remain to hold 25% equity interests in Quiksol HK. As at date of this announcement, the Directors consider that the option for the disposal of part or all of the interests in Quiksol HK is not excluded in the list but it is currently in a lower priority due to the low feasibility under current unfavourable market condition, and it is expected that attractive valuation is unlikely to be obtained in this regard, and therefore would not be in the interest of the Company and its Shareholders as a whole.

Based on the current business plan for the independent distribution business of the Group, the Board expects that (i) the Quiksol Group will prioritize customers' retention and secure any potential opportunities; and (ii) the Group is going to downsize its own operation in independent distribution business by reducing unnecessary costs and periodic review organisation structure, prioritise the core essential functions of the Group and reduce the headcount and optimize operation in independent distribution business. The Board is of the view that the current business plan will be in the interest of the Company and the shareholders of the Company as a whole.

INFORMATION OF THE QUIKSOL GROUP

Quiksol HK is a company incorporated in Hong Kong. Quiksol HK, together with its wholly-owned subsidiaries, is a leading independent distributor of electronic components and also provided services and products to clients who have global branches. One of the core businesses of the Quiksol Group is reverse supply chain management services and it provides its clients with solutions in the event of market supply shortage. Quiksol Group is also experienced in assisting clients with operation of global Original Equipment Manufacturing/Electronics Manufacturing Service (OEM/EMS) business by handling their surplus inventory in an efficient and market-sensitive manner.

As at the date of this announcement, the shareholding structure of Quiksol HK is as below:

Name of shareholders of Quiksol HK	Number of shares held (shareholding percentage)
Mr. Yan Qing	1,755,000 (22.5%)
Mr. Li Hong Sheng	1,755,000 (22.5%)
Mr. Ng Teck Yee (Jason)	1,755,000 (22.5%)
Ms. Ni Li	585,000 (7.5%)
Smart IC Cloud	<u>1,950,000 (25.0%)</u>
Total	<u><u>7,800,000 (100.0%)</u></u>

There is no shareholding change in the Quiksol Group before and after the Action and the Deconsolidation. Before the Action and the Deconsolidation, Quiksol HK and its subsidiaries are indirect non wholly-owned subsidiaries of the Company. Upon Completion, the Quiksol Group will cease to be subsidiaries of the Company, and the financial results of the Quiksol Group will no longer be consolidated into the accounts of the Group and Quiksol HK will become an associate of the Company, and its financial results will be equity accounted for in the consolidated financial statements of the Company.

FUTURE PLAN ON THE GROUP AND THE QUIKSOL GROUP

After considering the latest business environment, the Directors plan to focus the Company's resources on the authorised distribution business, rather than continue to devote significant resources to the independent distribution business, which Quiksol Group forms part of it.

Quiksol Group will continue its operation and to be monitored by the Quiksol HK Board. To the best knowledge, information and belief of the Directors having made all reasonable enquires, save and except the new shareholders' agreement entered into between the parties to reflect the Action, there no side arrangements and/or agreements signed between the Company, Quiksol HK, and any of the Four Shareholders.

GENERAL

Having considered (i) the recent unpredictable financial performance of the Quiksol Group under the complex and volatile macroeconomic and industry environment and without sign of recovery; (ii) the Group's intention to pursue business growth through capturing new business opportunities for the authorised distribution business in overseas market; (iii) the Group is of the view that the relocation of the management, operation, financial and administration resources (including the departure of the representative of the Group in the Quiksol HK Board) to the authorised distribution business with higher potential as well as more promising development opportunities; (iv) the Deconsolidation could avoid to incur unnecessary costs including, among others, legal and professional fees, staff costs and the relevant benefit expenses, and other administrative expenses; and (v) other than the one-off fair value adjustment upon the Deconsolidation, no material changes to the Group's equity attributable to the shareholders of the Company and the profit attributable to shareholders of the Company due to the Deconsolidation is expected, the Directors are of the view that, on balance, the Action and the Deconsolidation are in the interest of the Company and its shareholders as a whole.

Shareholders and potential investors of the Company are advised to exercise caution in dealing in the shares of the Company.

DEFINITIONS

“Action”	a representative of the Group, had ceased to act as a director of Quiksol HK and a member of the Quiksol HK Board
“Board”	the board of Directors
“Company”	Smart-Core Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange (stock code: 2166)
“Completion”	completion of the Action and the Deconsolidation
“Deconsolidation”	since the Group will no longer control the majority of the Quiksol HK Board after the Action, the Quiksol Group shall be deconsolidated from the consolidated financial statements of the Group

“Director(s)”	the director(s) of the Company
“Four Shareholders”	Yan Qing, a citizen of the Republic of Singapore, Li Hong Sheng, a citizen of the PRC, Ng Teck Yee (Jason), a citizen of the Republic of Singapore and Ni Li, a citizen of the PRC, each of them being a shareholder of Quiksol HK other than Smart IC Cloud
“Group”	the Company and its subsidiaries from time to time
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“PRC”	People’s Republic of China
“Quiksol Group”	Quiksol HK and its subsidiaries
“Quiksol HK”	Quiksol International HK Pte Limited, a company incorporated in Hong Kong and an indirectly non wholly-owned subsidiary of the Company before the Action and the Deconsolidation
“Quiksol HK Board”	the board of directors of Quiksol HK
“SHA”	the shareholders’ agreement dated 31 October 2018 entered into among Smart IC Cloud, the Four Shareholders and Quiksol HK
“Share(s)”	ordinary share(s) of US\$0.00001 each in the share capital of the Company
“Smart IC Cloud”	Smart IC Cloud Holdings Limited, a company duly established and validly existing under the laws of the British Virgin Islands and a direct wholly-owned subsidiary of the Company
“US\$”	US dollars, the lawful currency of the United States

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

Hong Kong, 2 January 2024

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