SMART-CORE HOLDINGS LIMITED
芯智控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2166

2019
INTERIM REPORT

CONTENTS

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. XIE Yi *(resigned with effect from 1 April 2019)*
Mr. YAN Qing *(appointed with effect from 1 April 2019)*

Independent Non-executive Directors

Mr. TANG Ming Je
Mr. ZHENG Gang
Mr. WONG Hok Leung

BOARD COMMITTEES

Audit Committee

Mr. WONG Hok Leung *(Chairman)*
Mr. TANG Ming Je
Mr. ZHENG Gang

Remuneration Committee

Mr. ZHENG Gang *(Chairman)*
Mr. TANG Ming Je
Mr. WONG Hok Leung
Mr. TIAN Weidong

Nomination Committee

Mr. TIAN Weidong *(Chairman)*
Mr. TANG Ming Je
Mr. WONG Hok Leung

COMPANY SECRETARY

Mr. CHAN Lap Wing *(HKICPA)*
(resigned with effect from 15 March 2019)
Mr. YAU Chak Man *(ACCA, HKICPA)*
(appointed with effect from 15 March 2019)

AUTHORISED REPRESENTATIVES

Mr. TIAN Weidong
Mr. WONG Tsz Leung

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

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AUDITOR

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Certified Public Accountants
35/F, One Pacific Place
88 Queensway, Hong Kong

LEGAL ADVISOR

As to Cayman Islands law

Maples and Calder
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

As to Hong Kong law

DLA Piper Hong Kong
17th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law

Commerce & Finance Law Offices
27C, Shenzhen Te Qu Bao Ye Building
6008 Shennan Road
Shenzhen, PRC

SHARE REGISTRARS

Hong Kong

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Hong Kong

Cayman Islands

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PO Box 1093
Boundary Hall Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

PRINCIPAL BANKERS

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

DBS Bank (Hong Kong) Limited
16/F, The Center
99 Queen's Road Central
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		
	2019	2018	**Change**
	HKD'000	HKD'000	
Revenue	**2,090,115**	2,264,513	-7.7%
Gross profit	**124,625**	100,818	23.6%
Profit before tax	**38,052**	42,973	-11.5%
Profit for the period	**31,916**	36,953	-13.6%
Profit attributable to owners of the Company	**29,792**	37,059	-19.6%
Earnings per share ("**EPS**")			
– Basic (HK cents)	**5.91**	7.41	-20.2%
– Diluted (HK cents)	**5.91**	7.37	-19.8%

	As at 30 June 2019	As at 31 December 2018	**Change**
	HKD'000	HKD'000 (Restated)	
Total assets	**1,551,977**	1,199,855	29.3%
Total liabilities	**926,367**	586,126	58.0%
Net assets	**625,610**	613,729	1.9%
Average turnover days of inventories – days(1)	**30**	20	50.0%
Average turnover days of trade receivables – days(2)	**50**	29	72.4%
Average turnover days of trade payables – days(3)	**32**	30	6.7%
Net financial position(4)	**(424,870)**	100,313	-523.5%
Gearing ratio – %(5)	**81.4**	9.7	739.2%
Current ratio(6)	**1.5**	1.8	-16.7%

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 gross 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) The balance of net financial position is calculated as the sum of cash and cash equivalents minus bank and other borrowings.

(5) Gearing ratio was calculated based on the total interest-bearing borrowings as at the respective dates divided by total equity as at the respective dates and multiplied by 100%.

(6) 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first half of 2019 has witnessed continued economic and trade frictions around the globe and the rise of technological protectionism which undermined the originally open and cooperative technological innovation ecosystem, posing a negative impact on the healthy development of the global economy. J.P. Morgan Global Manufacturing Purchasing Manager's Index (PMI) recorded 49.4% in June 2019, being the lowest during the period of the last six and a half years, and had been under the 50% threshold for two consecutive months, indicating the insufficient demand faced by the global manufacturing industry. The semiconductor chip industry, as the core resource of the electronics manufacturing industry, was also significantly affected. According to the data released by the Semiconductor Industry Association (SIA) in early July 2019, global chip sales in May 2019 decreased by 14.6% year-on-year, and has been on the decline trend for five consecutive months.

The changes in the global economic environment have not only adversely affected the business of the downstream customers of Smart-Core Holdings Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**"), but also posed a negative impact on the achievement of the Group's sales targets during the first half of 2019. Although the Group maintained a fairly stable sales of core TV integrated circuit ("**IC**"), it experienced a decline in sales of memory chips and set-top box chips in the first half of 2019. In addition, the Group's business recorded growth in its new products such as security monitoring, smart projection, smart locks and automotive electronics. However, the Group's emerging businesses, due to their small sales bases, made limited contributions to the Group's overall performance. As a result, the Group's sales performance for the first half of 2019 decreased slightly by 7.7% year-on-year.

Broadcast TV

According to the "Report on China's Colour TV Consumption for the First Half of 2019 and Trend Forecast for the Second Half of the Year" 《2019年1-6月中國彩電消費及下半年趨勢預測報告》 released by the China Electronics Chamber of Commerce, in the first half of 2019, the domestic colour TV consumption decreased by 4.3% year-on-year. As the Group adjusted its strategy in a timely manner to cope with the changes in market demand, the Group was able to maintain a stable sales of TV IC in an adverse market condition. The Group's core TV IC sales slightly decreased by 2.4% year-on-year to approximately HK$948.3 million in the first half of 2019.

According to the statistics from the streaming media network, in the first half of 2019, the internet protocol television ("**IPTV**") terminal purchase orders recorded by the three major telecom network operators in China declined substantially. Due to the sluggish market, coupled with the economic and trade frictions as well as the impact of technological protectionism in the export market, the sales of IPTV set-top box chips of the Group and set-top box chips in overseas carrier markets recorded a substantial decline, which led to a drop in the overall sales of the broadcast TV business. In the first half of 2019, the total sales of the Group's broadcast TV products was approximately HK$1,245.8 million, representing a decrease of 8.7% year-on-year.

Memory

In the context of the sluggish global economy, in the first half of 2019, major original manufacturers and brand manufacturers of memory chips were facing great pressure on inventory turnover rate and delivery, leading to a decline in both quantity and price of the non-volatile memory technology ("**NAND**") flash memory and the global dynamic random access memory ("**DRAM**") in the first half of 2019. Given the DRAM market was still oversupplied and market demand was weaker than the expectation in the first half of 2019, the Group recorded a cumulative decline of more than 30% in the prices of our DRAM products in the first half of 2019.

In the first half of 2019, the total sales of the Group's memory chip business decreased significantly, with sales down by 24.4% year-on-year to approximately HK$220.3 million.

Optoelectronic Display

In the first quarter of 2019, global display panel shipments declined year-on-year while liquid crystal display ("**LCD**") TV panel shipments recorded an increase according to Sigmaintell Research (群智諮詢). Thanks to our growth in market share due to increase of core blue chip customers, the Group's supply of semiconductor chips for LCD panels also increased in the first half of 2019 while the sales of system-on-chip ("**SoC**") master control chips for displays remained stable. Due to the substantial year-on-year decrease in shipments of the Group's TP touch IC business, the overall sales performance of the optoelectronic display business for the first half of 2019 recorded a year-on-year decrease of 10.2% to approximately HK$194.4 million.

Communication Products

The Group's communications product line mainly includes the provision of electronic components such as memory chips, radio frequency power amplifier and wireless charging chips to manufacturers of mobile phones, cellular Internet of Things ("**IoT**") modules and mobile phone peripheral accessories. In the first half of 2019, with increasing uncertainties of the market demand, the change in demand of individual customers led to a decline in the sales performance of this product line. However, benefiting from the growth of small and medium-sized customer groups and the initial achievements of market expansion of other peripheral product lines, the profitability of this product line improved. In the first half of 2019, the sales of the Group's communications products recorded a year-on-year decrease of 11.6% to approximately HK$67.6 million.

AIoT

The Group's artificial intelligence of things ("**AIoT**") business focuses on the sales of wireless connected chips and modules for the application in Wi-Fi, bluetooth low energy, long-term evolution ("**LTE**"), 2.4GHz, etc. In the first half of 2019, due to the drastic fluctuations in the demand from a large customer of the Group, the sales of the Group's AIoT business in early 2019 were not ideal. Even though other new customers commenced bulk purchase, such benefit was not able to fully offset the decline in the Group's AIoT sales caused by the sharp decrease in orders. In the first half of 2019, the sales of the Group's AIoT business recorded a year-on-year decrease of 36.9% to approximately HK$33.5 million.

Security Monitoring

The development of security monitoring involves five stages, namely simulation, digitalisation, networking, high-definition and intelligent monitoring. Currently, security monitoring industry is rapidly developing towards the stages of digitalisation, networking and intellingentisation. In 2018, "Artificial Intelligence ("**AI**") + Security Industry" was developing quickly. At present, AI technology has become the main force to promote technological advancement in the security monitoring industry, while integrated biometrics technology has become the focus of application in the security monitoring industry. The Group's security monitoring product line focuses on developing core SoC chips and image sensors for high-definition cameras, and proactively maintains close collaboration with AI algorithm companies. In the first half of 2019, our products maintained a leading edge in the industry, and the Group achieved a revenue of approximately HK$66.8 million in the first half of 2019, representing a year-on-year increase of 41.5%.

Independent Distribution

In the first half of 2019, due to the worldwide substantial price reduction of memory products, the overall turnover from independent distribution business was under pressure at the beginning of 2019. However, as the price of memory products has become more stable, customers began to place more orders rather than remaining hesitant. In the context of increased central processing unit ("**CPU**") orders, which is attributable to CPU shortages and price increases in the first half of 2019, the Group recorded a total turnover of approximately HK$169.7 million and maintained an overall steady growth momentum.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Areas

In the first half of 2019, the Group achieved some positive progress in the technology value-added sector. The cooperation projects between our smart projection division and two of the Global 500 companies have been advancing smoothly. During the same period, our cooperation with certain well-known domestic appliance brands in relation to 4K smart projection products has been launched in the market. Our smart lock product line, which is based on the solution developed with NXP Semiconductors N.V. security chip, achieved business breakthroughs in securing certain core customers in the first half of 2019. It is expected that such other product lines will record a substantial growth in the second half of 2019.

OUTLOOK

Looking forward to the second half of 2019, China's economy is still affected by a complex and changing external environment, especially the uncertainties surrounding the Sino-US trade frictions. Although the downward pressure in our overall performance increase, the Group will continue to closely monitor global economic changes and industrial developments trend, join in hands with our suppliers and customers to expand and enhance the following business and continue to explore more markets and new business.

Broadcast TV

According to China Electronics Chamber of Commerce, the proportion of 4K ultra-high-definition TV consumption in China continued to rise in the first half of 2019, and is expected to record a further increase for the rest of the year, marking the full-scale popularisation of 4K ultra-high-definition TV. Mediatek Inc. ("**Mediatek**"), a core chip supplier of the Company in the first half of 2019, has recently officially launched an 8K smart TV IC S900 platform program, and it is expected that the final product will be promoted on a large scale in early 2020.

In addition to continuously enhancing core technical indicators, smart LCD TVs with AI capabilities are also expected to become the core appliance of smart homes in the future. Smart home is the word frequently used in the entire home appliance industry in recent years. It is expected that the market scale of smart home industry will continue to expand in the second half of 2019 and in 2020. Building a smart TV-centred smart home IoT is expected to bring a new opportunity for the development of the smart TV industry.

In terms of the set-top box market, with the development of TV set-top boxes from digitalisation to networking and 4K ultra-high definition, set-top boxes have gradually become a new access to digital home network, and are expected to become one of the important access to smart homes in the future. In terms of 4K ultra-high definition program resources, apart from the "CCTV 4K" and 4K IPTV channels operated in different provinces in China, it is expected that nine to ten more 4K channels will be launched in 2020 in China. The increasingly enriched program resources will allow the ultra-high-definition industry to transform significantly. The integrated circuits and other electronic components used in the ultra-high-definition IPTV set-top boxes sold by the Group are expected to maintain a positive market prospect in the coming years.

The TV and set-top box business is an existing core business of the Company with large business volume, and is expected to maintain a stable development trend and constitute one of the Company's fundamental businesses in the future.

Memory

Based on the industrial information disclosed in the first half of 2019, large-sized manufacturers of the memory supply chain recently announced that their inventory levels have significantly decreased, and major memory chip factories have successively reduced their capital expenditures and slowed down their expansion. During the coming traditional peak season in the second half of 2019, the production capacity for Intel 10 and 14nm full range of processors will be in place, demands in the server market will gradually pick up, and it is expected that the memory market conditions will be improved in the second half of 2019.

As the memory products take a pivotal position in the entire semiconductor industry and there is still much room for development in the future, the memory business team of the Group will further develop this sector and continue to expand the customer base and business scale.

Optoelectronic Display

According to the data released by Witsview (集邦諮詢光電研究中心), it is expected that the LCD panel excess rate will fall from 2% in 2018 to less than 1% in the second half of 2019 with an improving market supply and demand relationship. The substitution effect due to scale economies in the TV sector will fuel the development of large-sized products and lead to rapid growth of the demand for TV panel. The demand for LCD panel area is expected to record a year-on-year increase for the year of 2019.

Communication Products

According to the Annual Report of China Radio Regulation 2018 (中國無線電管理年度報告－2018年) released by the Ministry of Industry and Information Technology, as of the end of December 2018, the three leading telecommunications enterprises in China, namely China Telecom, China Mobile and China Unicom, had 670 million cellular IoT users, representing a net increase of 400 million users for the year of 2018. Cellular IoT is widely used in smart fire protection, smart meter reading, smart locks, smart parking and other fields. It is expected that the number of cellular IoT users will continue to growth in the second half of 2019.

From the perspective of the services provided by the current cellular IoT, 2G is still the most important connection method for the current global cellular IoT, and narrow band Internet of Thing ("**NB-IoT**") will be the focus of developing the IoT industry in the future. For instance, China Mobile has already built more than 200,000 NB-IoT base stations nationwide, covering 346 major cities. Looking ahead, as most operators around the world will successively promote the phase-out of 2G, the market share of 2G data modules will gradually be replaced by NB-IoT.

According to the forecast by International Data Corporation, the number of IoT connections in the world will reach 30 billion by 2020, of which the number of cellular IoT connections will reach 2 billion. In view of this, it is foreseeable that NB-IoT-based cellular IoT terminals will be rapidly popularised and become an integral part of the construction of the Internet of Everything and smart cities in the next five years.

The communication product team is vigorously expanding new product lines and exploring new markets. It is expected that the business will be back on growth track in the second half of 2019, with promising prospects for future development.

MANAGEMENT DISCUSSION AND ANALYSIS

AIoT

AIoT, being a new form of IoT application which is different from the traditional IoT, integrates AI technology and IoT in practical applications. In June 2019, Mediatek released a new AIoT platform which comprises the i300 series with high integration features, the i500 series with integrated accelerated processing unit performance features and the high-end i700 series SoC chips. Depending on the specific configuration, bluetooth, Wi-Fi and LTE wireless connectivity features may be equipped to allow rich human-computer interfaces for more application scenarios, which can provide solutions for smart homes, smart cities and smart factories in the industry, thereby helping the integration of AI technology and IoT technology.

According to a recent report released by Markets and Markets, the world's second largest market research organisation, it is expected that the global AIoT market size will be US$5.1 billion in 2019, and will grow to US$16.2 billion by 2024, representing a compound annual growth rate of 26.0%. The AIoT market will become a new fast-growing market being full of opportunities.

As a close business partner of MediaTek, the Group will integrate resources to launch new solutions incorporating neural processing unit and face recognition algorithms, such as smart attendance, smart access control and smart retail based on the latest AIoT platform of MediaTek, thereby providing end-customers and original design manufacturer customers with complete and customisable turnkey solutions integrated with cloud features, aiming to capitalise on new opportunities of market development.

Security Monitoring

In 2018, substantially all in-depth learning and analysis applications in the security sector were processed on the server side or using cloud services rather than on the camera side (edge side). However, with the rapid development of edge computing and the popularity of 5G network, we believe that the second half of 2019 will be an important period to achieve new breakthroughs in security application-specific integrated circuit.

As a technologically advanced country in terms of security monitoring, China's demand for smart high-definition monitoring devices is far higher than other countries and regions. In addition, China is engaging a large number of infrastructure construction projects, including railways, airports, highway systems and major buildings. The Group expects that China's security monitoring market will grow rapidly.

Independent Distribution

Looking into the second half of 2019, as the Group's orders for memory products recorded a significant increase due to the worldwide increasing price of memory products as a result of the trade tension between Japan and South Korea, coupled with the continuing short supply of CPUs, CPU orders are expected to continue to increase. However, affected by continuing uncertainties such as China-US trade frictions, some of our international customers are transferring production capacity to factories outside China. We expect that other IC businesses will continue to decline slightly.

Looking ahead, we will continue to expand our existing business in terms of both scale and strength, and will explore more markets and new businesses relying on our own judgment and resources. We will continuously pay attention to the incubation and development of the Group's technology value-added business, and improve our investment return by creating value through technology development, and strengthen the construction of intellectual property to accumulate and build up our core competence.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, the Group's revenue amounted to HK$2,090.1 million, representing a decrease of HK$174.4 million (7.7%) as compared with the corresponding period in 2018 (HK$2,264.5 million). The decrease in revenue level was mainly caused by the combination effect of the decrease in the sales from our Broadcast TV products, Memory and other products of total approximately HK$307.5 million as well as the newly added sales of approximately HK$169.7 million after the acquisition of Quiksol International HK Pte Limited ("**Quiksol HK**") and its subsidiary (hereinafter together with Quiksol HK referred to as "**Quiksol Group**") in late 2018. The decrease in revenue was mainly attributable to the weak market demand for Broadcast TV products which was affected by the unfavorable factors such as Sino-US trade friction and the impact of technological protectionism on the export market.

Gross profit

Our gross profit for the six months ended 30 June 2019 increased by HK$23.8 million (23.6%) to HK$124.6 million as compared with the corresponding period in 2018 (HK$100.8 million). Our gross profit margin increased by 1.5% to 6.0% for the six months ended 30 June 2019 (six months ended 30 June 2018: 4.5%). The increase in gross profit margin was principally the combined effect of the higher gross profit margin from the independent distribution business and an one-off rebate from our supplier which decreased our cost of inventories.

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 2019, research and development expenses amounted to HK$11.9 million, increased by 5.3% as compared with the six months ended 30 June 2018 (HK$11.3 million). The increase was due to more technical support after the launch of certain new products as well as the increase in the average salaries cost to the technicians during the period.

Administrative, selling and distribution expenses

Administrative, selling and distribution expenses aggregated to HK$68.5 million for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$45.8 million), which accounted for 3.3% of the revenue for the six months ended 30 June 2019 as compared with 2.0% over the corresponding period in 2018. The net increase of HK$22.7 million was attributable to an increase in staff costs and newly added selling and distribution expenses from the independent distribution business after the acquisition of the Quiksol Group in late 2018.

Finance costs

The Group's finance costs for the six months ended 30 June 2019 amounted to HK$13.9 million (six months ended 30 June 2018: HK$10.2 million). The Group has entered into various financing arrangements with some of the principal bankers. The finance costs increased compared to the prior period which was due to the increased utilisation of bank borrowings to finance our working capital.

Profit for the period

For the six months ended 30 June 2019, the Group's profits amounted to HK$31.9 million, representing a decrease of HK$5.1 million as compared to HK$37.0 million for the corresponding period in 2018, a drop of 13.8%. The net profit margin for the six months ended 30 June 2019 was approximately 1.53%, which approximated to the corresponding period in 2018 (2018: 1.63%).

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 2019 amounted to HK$29.8 million, representing a decrease of 19.7% as compared with the corresponding period in 2018.

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 "**Listing Date**"). 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$103.1 million of the net proceeds as at 30 June 2019. The unutilised net proceeds have been placed as deposits with banks.

Use of Proceeds		**Net proceeds (in HK$ million)**	**Utilised as at 30 June 2019 (in HK$ million)**	**Amount remaining (in HK$ million)**
1.	Hiring additional staff for sales and marketing and business development and improvement of warehouse facilities	20.6	(20.6)	0.0
2.	Advertising and organizing marketing activities for the promotion of our e-commerce platform Smart Core Planet and our new products	41.2	(16.3)	24.9
3.	Enhancing, further developing and maintain our e-commerce platform and improving our technology infrastructure	41.2	(2.9)	38.3
4.	For research and development	20.6	(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	(22.2)	39.5
6.	General working capital	20.5	(20.5)	0.0
		205.8	(103.1)	102.7

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 2019, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK$220.7 million (31 December 2018: HK$263.2 million).

As at 30 June 2019, the outstanding bank and other borrowings of the Group was HK$509.1 million (31 December 2018: HK$59.3 million). The Group's gearing ratio, based on the interest-bearing borrowings and total equity, increased from 9.7% as at 31 December 2018 to 81.4% as at 30 June 2019 as a result of the increased level of bank borrowings to finance our expanded working capital needs.

As at 30 June 2019, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK$920 million and HK$415 million (31 December 2018: HK$949 million and HK$554 million) respectively.

As at 30 June 2019, the Group had current assets of HK$1,390.4 million (31 December 2018: HK$1,050.5 million) and current liabilities of HK$918.1 million (31 December 2018: HK$584.2 million). The current ratio was 1.51 times as at 30 June 2019 (31 December 2018: 1.80 times).

The Group's debtor's turnover period was 50 days for the six months ended 30 June 2019 as compared to 29 days for the corresponding period in 2018. The overall debtors' turnover period was within the credit period. The increase in debtors' turnover period is due to the delay in payments from certain of our small and medium enterprises customers upon the change in economic environment, as well as receivables of certain of our customers are no longer derecognised under factoring arrangements as at 30 June 2019.

The creditors' turnover period was 32 days for the six months ended 30 June 2019 as compared with 30 days for the corresponding period in 2018. Creditors' turnover period has been maintaining at a stable level.

The inventories' turnover period was 30 days for the six months ended 30 June 2019 as compared with 20 days for the corresponding period in 2018. The increase in inventories' turnover period is mainly caused by the delay on goods delivery requested by customers.

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$0.5 million during the six months ended 30 June 2019 (six months ended 30 June 2018: net foreign exchange loss of approximately HK$0.2 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.

Pledge of assets

As at 30 June 2019, the financial assets at fair value through profit or loss ("**FVTPL**") amounted to HK$126.7 million (31 December 2018: HK$127.5 million), debt instruments at fair value through other comprehensive income ("**FVTOCI**") amounted to HK$nil (31 December 2018: HK$4.2 million), trade receivable factored amounted to HK$280.4 million (31 December 2018: HK$nil) and bank deposits amounted to HK$136.4 million (31 December 2018: HK$103.7 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 2019.

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 2019.

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 2019.

EVENTS AFTER THE INTERIM PERIOD ENDED 30 JUNE 2019

Up to the date of this report, the Group has no significant subsequent event after 30 June 2019 which required disclosure.

OTHER INFORMATION

EMPLOYEE AND EMPLOYEE INCENTIVE SCHEMES

As at 30 June 2019, the Group had 365 employees, with majority based in Shenzhen, Suzhou and Hong Kong. Total employee cost for the six months ended 30 June 2019, excluding the remuneration of the directors of the Group were approximately HK$49.3 million (six months ended 30 June 2018: approximately HK$38.3 million). There have been no material changes to the information disclosed in the prospectus dated 27 September 2016 (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 ("**Share Award Scheme**") and conditionally approved and adopted a share option scheme ("**Share Option Scheme**").

In relation to the Share Award Scheme, the board ("**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 ("**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 2019, no share award and share option had been granted or agreed to be granted by the Company pursuant to the Share Award Scheme (six months ended 30 June 2018: 9,580,000 share awards) and Share Option Scheme (six months ended 30 June 2018: nil).

Details of movement of shares awarded under the Share Award Scheme during the six months ended 30 June 2019 were as follows:

	Number of shares			
Date of grant	**As at 1 January 2019**	**Vested during the period**	**As at 30 June 2019**	**Vesting period**
28 March 2018	4,390,000	4,390,000	–	28 March 2018 – 2 January 2019

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2019.

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

Pursuant to rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), the change in information of directors of the Company (the "**Directors**") since the date of the Company's 2018 annual report are set out as follows:

(1) With effect from 1 April 2019, Mr. Xie Yi has resigned as an executive Director.

(2) With effect from 1 April 2019, Mr. Yan Qing has been appointed as an executive Director.

The biographical details of Mr. Yan are set out in the Company's announcement made on 26 March 2019 on the website of the Stock Exchange.

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK2 cents per share for the six months ended 30 June 2019 and is expected to be paid on or about Monday, 30 September 2019 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 18 September 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 16 September 2019 to Wednesday, 18 September 2019, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 13 September 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining high corporate governance standards. The Board believes that good corporate governance, by adopting an effective management accountability system and high standard of business ethnics, 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 A.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 2019. 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 A.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 A.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.

OTHER INFORMATION

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 2019.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, 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 Future Ordinance ("**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:

Name of Director	Nature of Interest	Number of Shares held	Approximate shareholding percentage[(4)]
Mr. Tian Weidong[(1)]	Interest in a controlled corporation	262,500,000 (L)	52.07%
Mr. Wong Tsz Leung[(2)]	Interest in a controlled corporation	90,000,000 (L)	17.85%
Mr. Yan Qing[(3)]	Beneficial owner	1,231,509 (L)	0.24%

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. Yan Qing is interested in 1,755,000 shares of Quiksol HK, representing approximately 22.5% of the total issued shares of Quiksol HK.

(4) Based on 504,105,030 Shares in issue as at 30 June 2019.

(L) represents long positions.

Saved as disclosed in this report, as at 30 June 2019, 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 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed below, during the six months ended 30 June 2019, 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 ("**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 ("**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 or 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.

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

As at 30 June 2019, so far as the Directors are aware, the following persons (other than a Director or a chief executive of the Company) 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:

Name of Director	Nature of Interest	Number of Shares held	Approximate shareholding percentage[3]
Mr. Tian Weidong[1]	Interest in a controlled corporation	262,500,000 (L)	52.07%
Mr. Wong Tsz Leung[2]	Interest in a controlled corporation	90,000,000 (L)	17.85%

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 504,105,030 Shares in issue as at 30 June 2019.

(L) Represents long positions.

Saved as disclosed above, as at 30 June 2019, 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.

OTHER INFORMATION

AUDIT COMMITTEE

The Company has established an audit committee ("**Audit Committee**"), comprising three independent non-executive Directors, namely Mr. Zheng Gang, Mr. Tang Ming Je and Mr. Wong Hok Leung. 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 unaudited interim results of the Group for the six months ended 30 June 2019 ("**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 2019 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 takes 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, 26 August 2019

REPORT ON REVIEW OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF SMART-CORE HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the unaudited condensed consolidated financial statements of Smart-Core Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 20 to 44, which comprises the condensed consolidated statement of financial position as of 30 June 2019 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 unaudited condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these unaudited 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 unaudited 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 unaudited condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	NOTES	Six months ended 30 June	
		2019	2018
		HK$'000	HK$'000
		(unaudited)	(unaudited)
Revenue	4	**2,090,115**	2,264,513
Cost of sales		**(1,965,490)**	(2,163,695)
Gross profit		**124,625**	100,818
Other income		**7,175**	4,573
Other gains or losses, net		**4,066**	(285)
Impairment losses (recognised) reversed under expected credit loss model, net	5	**(3,571)**	5,103
Research and development expenses		**(11,877)**	(11,259)
Administrative expenses		**(28,282)**	(27,468)
Selling and distribution expenses		**(40,196)**	(18,319)
Finance costs		**(13,888)**	(10,190)
Profit before tax	6	**38,052**	42,973
Income tax expense	7	**(6,136)**	(6,020)
Profit for the period		**31,916**	36,953
Other comprehensive income (expenses)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**44**	(624)
Fair value loss on debt instruments at fair value through other comprehensive income		**(20)**	(205)
Cumulative loss reclassified to profit or loss on sale of investments in debt instruments measured at fair value through other comprehensive income upon disposal		**105**	–
		129	(829)
Total comprehensive income for the period		**32,045**	36,124
Profit (loss) for the period attributable to:			
Owners of the Company		**29,792**	37,059
Non-controlling interests		**2,124**	(106)
		31,916	36,953
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**29,904**	36,229
Non-controlling interests		**2,141**	(105)
		32,045	36,124
Earnings per share:			
Basic (HK cents)	9	**5.91**	7.41
Diluted (HK cents)		**5.91**	7.37

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	NOTES	As at 30 June 2019 HK$'000 (unaudited)	As at 31 December 2018 HK$'000 (audited) (restated)
Non-current assets			
Property, plant and equipment	10	3,966	4,614
Right-of-use assets	10	9,198	–
Goodwill	23	9,735	9,735
Intangible asset	11	10,365	11,560
Deposits, prepayments and other receivables	13	369	109
Deferred tax asset		1,227	–
Financial assets at fair value through profit or loss		126,670	123,297
		161,530	149,315
Current assets			
Inventories		385,884	256,169
Trade receivables	12	681,990	471,044
Deposits, prepayments and other receivables	13	101,877	51,666
Debt instruments at fair value through other comprehensive income		–	4,232
Financial assets at fair value through profit or loss		–	4,197
Amount due from a related company	22b	30	–
Pledged bank deposits	14	136,419	103,664
Bank balances and cash	14	84,247	159,568
		1,390,447	1,050,540
Current liabilities			
Trade payables	15	306,048	398,174
Other payables and accrued charges	16	65,870	96,291
Contract liabilities		14,976	13,808
Lease liabilities		2,698	–
Amount due to a non-controlling shareholder of a subsidiary	22b	508	2,005
Tax liabilities		18,861	14,686
Bank and other borrowings	17	509,123	59,255
		918,084	584,219
Net current assets		472,363	466,321
Total assets less current liabilities		633,893	615,636

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	NOTE	As at 30 June 2019 HK$'000 (unaudited)	As at 31 December 2018 HK$'000 (audited) (restated)
Non-current liabilities			
Deferred tax liability		1,710	1,907
Lease liabilities		6,573	–
		8,283	1,907
Net assets		625,610	613,729
Capital and reserves			
Share capital	18	39	39
Reserves		578,077	568,337
Equity attributable to owners of the Company		578,116	568,376
Non-controlling interests		47,494	45,353
		625,610	613,729

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company											
	Share capital	Share premium	Other reserve	Statutory reserve	Exchange reserve	Investment revaluation reserve	Treasury share reserve	Share-based payment reserve	Retained profits	Sub-total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000 (note a)	HK$'000 (note b)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018 (audited)	39	340,108	14,051	1,226	1,001	28	–	–	150,560	507,013	125	507,138
Profit for the period	–	–	–	–	–	–	–	–	37,059	37,059	(106)	36,953
Exchange differences arising on translation of foreign operations	–	–	–	–	(625)	–	–	–	–	(625)	1	(624)
Fair value loss on debt instruments at fair value through other comprehensive income	–	–	–	–	–	(205)	–	–	–	(205)	–	(205)
Profit and total comprehensive (expense) income recognised for the period	–	–	–	–	(625)	(205)	–	–	37,059	36,229	(105)	36,124
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	8,301	–	8,301	–	8,301
Dividends recognised as distribution (note 8)	–	(15,000)	–	–	–	–	–	–	–	(15,000)	–	(15,000)
At 30 June 2018 (unaudited)	39	325,108	14,051	1,226	376	(177)	–	8,301	187,619	536,543	20	536,563
At 1 January 2019 (audited)	39	322,087	14,051	2,447	(647)	(85)	(6,880)	6,980	230,300	568,292	38,114	606,406
Adjustments (note 2)	–	–	–	–	–	–	–	–	84	84	7,239	7,323
At 1 January 2019 (restated)	**39**	**322,087**	**14,051**	**2,447**	**(647)**	**(85)**	**(6,880)**	**6,980**	**230,384**	**568,376**	**45,353**	**613,729**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**29,792**	**29,792**	**2,124**	**31,916**
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**27**	**–**	**–**	**–**	**–**	**27**	**17**	**44**
Fair value loss on debt instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(20)**	**–**	**–**	**–**	**(20)**	**–**	**(20)**
Cumulative loss reclassified to profit or loss on sale of investments in debt instruments measured at fair value through other comprehensive income upon disposal	**–**	**–**	**–**	**–**	**–**	**105**	**–**	**–**	**–**	**105**	**–**	**105**
Profit and total comprehensive income recognised for the period	**–**	**–**	**–**	**–**	**27**	**85**	**–**	**–**	**29,792**	**29,904**	**2,141**	**32,045**
Dividends recognised as distribution (note 8)	**–**	**(20,164)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20,164)**	**–**	**(20,164)**
Shares vested under the shares award scheme	**–**	**–**	**–**	**–**	**–**	**–**	**6,499**	**(6,980)**	**481**	**–**	**–**	**–**
At 30 June 2019 (unaudited)	**39**	**301,923**	**14,051**	**2,447**	**(620)**	**–**	**(381)**	**–**	**260,657**	**578,116**	**47,494**	**625,610**

Notes:

(a) Other reserve represents (i) the combined share capital of Smart-Core International Company Limited and Smart-Core Cloud 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 interests at acquisition date and the consideration paid to acquire the additional interests in subsidiaries.

(b) 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	**60,376**	53,903
Increase in inventories	**(139,090)**	(19,291)
Increase in trade receivables	**(213,508)**	(147,445)
(Decrease) increase in trade payables	**(92,096)**	41,905
Other operating cash flows	**(30,370)**	10,702
Cash used in operations	**(414,688)**	(60,226)
Income tax paid	**(3,384)**	(5,535)
NET CASH USED IN OPERATING ACTIVITIES	**(418,072)**	(65,761)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(767)**	(987)
Proceeds from disposal of property, plant and equipment	**159**	–
Loan to third parties	**(99,060)**	(31,200)
Loan repayment from third parties	**48,941**	–
Proceeds from disposal of financial assets at fair value through profit or loss	**4,204**	–
Interest income received from loans to third parties	**3,164**	1,322
Interest received	**997**	575
Placement of pledged bank deposits	**(33,335)**	(45,499)
Withdrawal of pledged bank deposits	**580**	51,400
Proceeds from disposal of debt instruments at fair value through other comprehensive income	**4,317**	45,467
Purchases of debt instruments at fair value through other comprehensive income	**–**	(51,348)
Other investing cash flows	**–**	843
NET CASH USED IN INVESTING ACTIVITIES	**(70,800)**	(29,427)
FINANCING ACTIVITIES		
New bank borrowings raised	**677,641**	158,956
Repayment of bank borrowings	**(227,771)**	(68,180)
Dividend paid	**(20,164)**	(15,000)
Interest paid	**(13,888)**	(10,190)
Repayment to non-controlling shareholder of a subsidiary	**(1,499)**	–
Repayments of lease liabilities	**(801)**	–
NET CASH FROM FINANCING ACTIVITIES	**413,518**	65,586
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(75,354)**	(29,602)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**159,568**	177,299
Effect of foreign exchange rate changes	**33**	165
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Represented by bank balances and cash	**84,247**	147,862

1. BASIS OF PREPARATION

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

The unaudited condensed consolidated financial statements have been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The unaudited condensed consolidated financial statements do not include all the information required for a complete set of financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

The functional currency of the Company is United States Dollars and the presentation currency of the Group's unaudited condensed consolidated financial statements is Hong Kong Dollars ("**HK$**").

2. ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2018

Pursuant to Hong Kong Financial Reporting Standard ("**HKFRS**") 3 *Business Combinations*, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. As further disclosed in note 23, the Group acquired 25% of the equity interest in Quiksol International HK Pte Limited ("**Quiksol HK**") and its subsidiary (hereinafter together with Quiksol HK referred to as "**Quiksol Group**") in October 2018. The Group recognised in its consolidated financial statements for the year ended 31 December 2018 the provisional amounts of purchase considerations, fair value of identifiable assets acquired and liabilities assumed and goodwill. During the current period (i.e. within the measurement period), the fair value assessment in respect of the acquisition has completed, and the Group retrospectively adjusted the 2018 comparative information on the condensed consolidated statement of financial position as at 30 June 2019 as follows:

	As previously reported	**Adjustments**	**Restated**
	HK$'000	**HK$'000**	**HK$'000**
Goodwill	7,230	2,505	9,735
Intangible asset	5,790	5,770	11,560
Deferred tax liability	(955)	(952)	(1,907)
Equity attributable to owners of the Company	(568,292)	(84)	(568,376)
Non-controlling interests	(38,114)	(7,239)	(45,353)

Further details of the identifiable assets acquired and the liabilities assumed in relation to the acquisition of Quiksol Group are set out in note 23.

3. PRINCIPAL ACCOUNTING POLICIES

The unaudited 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 changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's unaudited condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to Hong Kong Accounting Standard ("**HKAS**") 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current 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 unaudited condensed consolidated financial statements.

Impacts and changes in accounting policies on application of HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("**HKAS 17**"), and the related interpretations.

3.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impacts and changes in accounting policies on application of HKFRS 16 Leases (continued)

3.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises and staff quarters that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impacts and changes in accounting policies on application of HKFRS 16 Leases (continued)

3.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets. The impact of such adjustments as at 1 January 2019 and during the current period are not material.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impacts and changes in accounting policies on application of HKFRS 16 Leases (continued)

3.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

3.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impacts and changes in accounting policies on application of HKFRS 16 Leases (continued)

3.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK$469,000 and the related right-of-use assets at the same amount at 1 January 2019 by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.43%.

	At 1 January 2019
	HK$'000
Operating lease commitments disclosed as at 31 December 2018	4,791
Lease liabilities discounted at relevant incremental borrowing rates	4,265
Less: Recognition exemption – short-term leases	(3,796)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 and as at 1 January 2019	469
Analysed as:	
Current	224
Non-current	245

The carrying amount of right-of-use assets at 1 January 2019 comprises the following:

	At 1 January 2019
	HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	469
By class:	
Buildings	469

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impacts and changes in accounting policies on application of HKFRS 16 Leases (continued)

3.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

The following adjustments were made to the amounts recognised in the unaudited condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	**Carrying amounts under HKFRS 16 at 1 January 2019**
	HK$'000	HK$'000	**HK$'000**
Non-current assets			
Right-of-use assets	–	469	**469**
Current liabilities			
Lease liabilities	–	(224)	**(224)**
Non-current liabilities			
Lease liabilities	–	(245)	**(245)**

4. REVENUE AND SEGMENT INFORMATION

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Sale of electronic components	**2,090,115**	2,264,513

Revenue is recognised at a point of time when control of the goods has transferred, being when the goods have been delivered to port of discharged 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 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.

Customers can only return or request refund if the goods delivered do not meet required quality standards. As at 30 June 2019, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

4. REVENUE AND SEGMENT INFORMATION (continued)

For the purpose of resource allocation and assessment of segment performance, the executive directors of the Company, collectively, being the chief operating decision maker, focuses and reviews on the overall results (i.e. revenue and gross profit) and financial position of the Group as a whole which are prepared based on the Group's accounting policies. Accordingly, the Group has only one single operating segment and no further analysis of the single segment is presented.

Geographical information

The Group principally operates in Hong Kong ("**HK**") and the PRC.

The following table provides an analysis of the Group's sales by geographical market based on the jurisdictions where the relevant group entities were set up, which are also their place of operations during the period, irrespective of the origin of goods/services and the location of customers.

Revenue from external customers based on location of operations of the relevant group entities

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
HK	**1,984,492**	2,215,175
PRC	**105,623**	49,338
	2,090,115	2,264,513

The only source of revenue is from sale of electronic components in HK and the PRC. No further information regarding disaggregation of revenue except for geographical information as disclosed above.

5. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Impairment loss recognised (reversed), net in respect of		
Trade receivables	**2,524**	(5,259)
Other receivables	**1,047**	156
	3,571	(5,103)

The basis of determining the inputs and assumptions and the estimation techniques used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 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 2018.

5. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL (continued)

During the six months ended 30 June 2018, the Group reversed the impairment allowance of HK$6,965,000 (2019: nil) resulting from subsequent settlement.

During the current interim period, the directors of the Company are of the opinion that the ECL on other financial assets subject to ECL is insignificant.

6. PROFIT BEFORE TAX

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit before tax has been arrived after charging (crediting):		
Allowance for inventories	**9,362**	4,723
Amortisation of intangible asset (included in selling and distribution expenses)	**1,195**	–
Bank interest income (included in other income)	**(889)**	(342)
Cost of inventories recognised as an expense	**1,956,128**	2,158,972
Depreciation of property, plant and equipment	**1,258**	739
Depreciation of right-of-use assets	**874**	–
Interest income from loans to third parties (included in other income)	**(3,164)**	(1,322)
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**46,325**	28,917
Retirement benefit scheme contributions	**5,846**	4,010
Share-based payment expenses	**–**	8,301

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Hong Kong Profits Tax	**7,317**	6,799
PRC Enterprise Income Tax ("**PRC EIT**")	**243**	(779)
	7,560	6,020
Deferred tax	**(1,424)**	–
	6,136	6,020

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

7. INCOME TAX EXPENSE (continued)

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, starting from 2018, 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 HK, 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% during the six months ended 30 June 2019 and 2018. 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 three years till 2020, it is entitled to a reduced tax rate of 15% for PRC EIT during the six months ended 30 June 2019 and 2018. Accordingly, the PRC EIT is calculated at 15% on the assessable profit of SMC Technology SZ.

Withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. At 30 June 2019, 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$22,872,000 (31 December 2018: HK$21,258,000). 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.

8. DIVIDENDS

During the current interim period, a final dividend of HK4 cents per share in respect of the year ended 31 December 2018 (2018: HK3 cents per share in respect of the year ended 31 December 2017) 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$20,164,000 (2018: HK$15,000,000). Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK2 cents (2018: HK2 cents) per share in respect of the six months ended 30 June 2019 will be paid to the shareholders whose names appeared on the register of members as at the close of business on 18 September 2019.

9. 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	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**29,792**	37,059

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**503,830,776**	500,000,000
Effect of dilutive potential ordinary shares:		
Unvested shares under share award scheme	**24,254**	2,711,331
Weighted average number of ordinary shares for the purpose of diluted earnings per shares	**503,855,030**	502,711,331

For the six months ended 30 June 2019, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account the ordinary shares purchased by Computershare Hong Kong Trustees Limited from the market pursuant to the share award scheme of the Company for those unvested awarded shares and ungranted shares.

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

During the current interim period, the Group spent approximately HK$767,000 to acquire furniture and fixtures and disposed of certain plant and equipment with carrying amount of approximately HK$167,000 for cash proceeds of approximately HK$159,000, resulting in a gain on disposal of approximately HK$8,000.

During the current interim period, the Group entered into a new lease agreement for the use of staff quarters for 2 years. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised approximately HK$2,071,000 of right-of-use assets and approximately HK$2,071,000 of lease liabilities.

In addition, the Group renewed the lease for its existing office premises for a period of 5 years which is accounted for as a lease modification. The Group is required to make fixed monthly payments. At the effective date of the modification, the Group recognised approximately HK$7,532,000 of right-of-use assets and approximately HK$7,532,000 of lease liabilities.

11. INTANGIBLE ASSET

	Customer relationship HK$'000
COST	
At 1 January 2018 (audited)	–
Acquired on acquisition of Quiksol Group (restated) (note 23)	11,959
At 31 December 2018 (restated) and 30 June 2019 (unaudited)	11,959
AMORTISATION	
At 1 January 2018 (audited)	–
Charge for the year (restated)	399
At 31 December 2018 (restated)	399
Charge for the period	1,195
At 30 June 2019 (unaudited)	1,594
CARRYING VALUE	
At 30 June 2019 (unaudited)	10,365
At 31 December 2018 (restated)	11,560

Intangible asset represent customer-related intangible asset recognised in a business combination and is amortised on a straight-line basis, over the following rate per annum:

Customer relationship	20%

12. TRADE RECEIVABLES

	As at 30 June 2019 HK$'000 (unaudited)	As at 31 December 2018 HK$'000 (audited)
Trade receivables	**692,174**	346,696
Less: allowance for credit losses	**(10,184)**	(7,660)
	681,990	339,036
Trade receivables under factoring agreements (Note)	**–**	132,008
	681,990	471,044

Note: The Group entered into non-recourse factoring agreements with banks to factor certain customers' trade receivables and these receivables are measured at fair value through profit or loss ("**FVTPL**") as it is held within a business model whose objective is not to collect contractual cash flows but to sell the financial assets.

As at 31 December 2018, trade receivables of HK$340,239,000 (30 June 2019: nil) were derecognised as the directors of the Company were of the opinion that the substantial risks and rewards associated with the trade receivables had been transferred to banks and therefore qualified for derecognition.

12. TRADE RECEIVABLES (continued)

As at 30 June 2019, total bills received amounting to HK$3,420,000 (31 December 2018: nil) with a maturity period of 30 days are held by the Group for future settlement of trade receivables. The Group continues to recognise trade receivables' full carrying amounts at the end of the reporting period.

The Group allows credit period of 0 to 120 days (31 December 2018: 0 to 120 days) to its customers. The following is an aged analysis of the Group's trade receivables (net of allowance for credit losses), at the end of the reporting period, based on the invoice dates which approximated the respective revenue recognition dates:

	As at 30 June 2019 HK$'000 (unaudited)	As at 31 December 2018 HK$'000 (audited)
0 – 60 days	**524,784**	340,725
61 – 120 days	**89,910**	67,425
Over 120 days	**67,296**	62,894
	681,990	471,044

13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2019 HK$'000 (unaudited)	As at 31 December 2018 HK$'000 (audited)
Deposits	**15,887**	20,419
Prepayments	**4,815**	3,239
Other receivables (note)	**78,446**	25,610
Value-added tax recoverable	**3,098**	2,507
	102,246	51,775
Analysed as:		
Non-current	**369**	109
Current	**101,877**	51,666
	102,246	51,775

Note: Other receivables as at 30 June 2019 mainly included loans granted to third parties amounting to HK$72,930,000 (31 December 2018: HK$22,811,000). These loans are unsecured, carry interest at a range of 4.5% to 10% (31 December 2018: 6% to 10%) and repayable in November 2019 through May 2020 (31 December 2018: repayable in February 2019 through May 2019), respectively.

14. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits of the Group are pledged to banks for securing 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 ranging from 0.001% to 2% (31 December 2018: 0.001% to 0.5%) per annum.

15. TRADE PAYABLES

	As at 30 June 2019 HK$'000 (unaudited)	As at 31 December 2018 HK$'000 (audited)
Trade payables	**306,048**	398,174

The credit period on trade purchases is 0 to 60 days (31 December 2018: 0 to 60 days).

Ageing analysis of the Group's trade payables based on invoice dates at the end of the reporting period is as follows:

	As at 30 June 2019 HK$'000 (unaudited)	As at 31 December 2018 HK$'000 (audited)
0 – 30 days	**226,262**	294,334
31 – 60 days	**61,902**	103,361
61 – 90 days	**17,014**	461
Over 90 days	**870**	18
	306,048	398,174

As at 30 June 2019, included in the trade payables is HK$16,109,000 (31 December 2018: HK$2,811,000), 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

	As at 30 June 2019 HK$'000 (unaudited)	As at 31 December 2018 HK$'000 (audited)
Accrued purchase	**39,376**	66,112
Accrued expenses	**20,103**	21,044
Other payables	**6,391**	9,135
	65,870	96,291

17. BANK AND OTHER BORROWINGS

	As at 30 June 2019	As at 31 December 2018
	HK$'000	HK$'000
	(unaudited)	(audited)
Bank borrowings (Note i)	**282,162**	1,206
Import and export loans	**224,621**	55,709
	506,783	56,915
Other borrowing (Note ii)	**2,340**	2,340
	509,123	59,255
Carrying amounts of the above borrowings are repayable*:		
– within one year	**509,123**	59,255
Carrying amounts of borrowings that contain repayment on demand clause (shown under current liabilities)	**506,783**	56,915
Analysed as:		
Secured	**504,998**	56,123
Unsecured	**4,125**	3,132
	509,123	59,255

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

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

As at 30 June 2019, the effective variable interest rates of the Group's secured bank borrowings and import and export loans are 3.97% to 4.86% (31 December 2018: 3.05% to 5.04%) per annum.

Notes:

(i) During the current interim period, the Group factored trade receivables to banks with recourse in an aggregated amount of HK$280,377,000 (six months ended 30 June 2018: nil) and accordingly the cash received on the transfer was recognised as borrowings and included in bank borrowings.

(ii) As at 30 June 2019 and 31 December 2018, the Group had obtained a loan from an individual which is unsecured, interest bearing at a fixed rate of 9% per annum and repayable by 9 August 2019. The loan is subsequently further extended to 8 February 2020.

18. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Ordinary shares of US$0.00001 each		
Authorised:		
At 1 January 2018 (audited), 31 December 2018 (audited) and 30 June 2019 (unaudited)	5,000,000,000	50
Issued and fully paid:		
At 1 January 2018 (audited) and 30 June 2018 (unaudited)	500,000,000	5
Issue of new shares (Note)	4,105,030	–*
At 1 January 2019 (audited) and 30 June 2019 (unaudited)	504,105,030	5

	As at 30 June 2019	As at 31 December 2018
	HK$'000 (unaudited)	HK$'000 (audited)
Shown in the financial statements as	39	39

* The amount is less than US$1,000.

Note: On 31 October 2018, the Company issued 4,105,030 ordinary shares as part of the consideration for the acquisition of Quiksol Group which resulted in the recognition of share premium of approximately HK$6,979,000.

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group performed discounted cash flow to derive the present value of other investments. 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 and liabilities.

The fair values of these financial assets and financial liabilities 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 markets 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).

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 30 June 2019 (unaudited)	Fair value as at 31 December 2018 (audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
1. Debt instruments at FVTOCI	–	Listed debt securities in Hong Kong HK$4,232,000	Level 1	Quoted bid prices in active market
2. Financial assets at FVTPL	**Unit trust funds HK$50,617,000**	Unit trust funds HK$52,419,000	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
	Life insurance policies HK$76,053,000	Life insurance policies HK$75,075,000	Level 3	Based on credit rating, ages of life-insured persons and the discount rate (Note)
	–	Trade receivables under non-recourse factoring agreement HK$132,008,000	Level 2	Based on discounted cash flow that capture the present value of future expected cash flows derived from the underlying assets

Note: The unobservable significant input is discount rate and if the discount rate increases, the fair value decreases and vice versa.

There is no transfer among the different levels of the fair value hierarchy.

Reconciliation of Level 3 fair value measurements of financial assets

	Life insurance policies HK$'000
At 1 January 2018 (audited)	–
Transfer from deposits, prepayment and other receivables to Level 3 from initial application of HKFRS 9	62,316
Payments made during the year	11,746
Total gains in profit or loss	1,013
At 31 December 2018 (audited)	75,075
Total gains in profit or loss	978
At 30 June 2019 (unaudited)	76,053

20. PLEDGE OF ASSETS

At 30 June 2019, bills issued to relevant creditors and bank borrowings are secured by (i) financial assets at FVTPL; (ii) pledged bank deposits; (iii) personal guarantees from a non-controlling shareholder; and (iv) certain trade receivables.

At 31 December 2018, bills issued to relevant creditors and bank borrowings are secured by (i) debt instruments at FVTOCI; (ii) financial assets at FVTPL; (iii) pledged bank deposits; and (iv) personal guarantees from a non-controlling shareholder.

21. SHARE-BASED PAYMENT TRANSACTIONS

Share award scheme

Save as disclosed in the 2018 annual report, there is no material change relating to the share-based payment transactions for the six months ended 30 June 2019 except for the following:

Movements of the awarded shares granted during the period are as follows:

	Number of awarded shares granted
	'000
Unvested at 31 December 2018	4,390
Vested on 2 January 2019	(4,390)
Unvested at 30 June 2019	–

During the six months ended 30 June 2019, no share-based payment expense has been recognised in profit or loss (six months ended 30 June 2018: HK$8,301,000 (unaudited)).

22. RELATED PARTIES DISCLOSURE

(a) Transactions

The Group had the following material transactions with related parties during the period:

Name of related party	Notes	**Nature of transaction**	**Six months ended 30 June**	
			2019	2018
			HK$'000	HK$'000
			(unaudited)	(unaudited)
芯智股份有限公司 (Smart-Core Technology Co., Ltd. "**SC Technology**")*	(i)	Sales of goods	**2,823**	2,103
Quiksol International Components Pte Ltd (**"Quiksol Internationa**l")	(ii)	Sales of goods	**2,898**	–
		Purchase of goods	**(690)**	–

* English name of for identification only.

22. RELATED PARTIES DISCLOSURE (continued)

(a) Transactions (continued)

Notes:

(i) Mr. Tian Weidong, one of the directors and the ultimate controlling party of the Company, is a shareholder of SC Technology.

(ii) A non-controlling shareholder of Quiksol HK, a subsidiary of the Company, is the controlling shareholder of Quiksol International.

(b) Balances

Amount due from a related company

The amount due from a related company represents trade balance with SC Technology and is unsecured, non-interest bearing and with a credit period of 120 days. The balance at 30 June 2019 is aged within 30 days.

Amount due to a non-controlling shareholder of a subsidiary

The amount is unsecured, non-interest bearing 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	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Short term benefits	**3,422**	2,915
Post-employment benefits	**55**	45
	3,477	2,960

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

23. ACQUISITION OF SUBSIDIARIES

On 22 October 2018, the Group entered into an equity transfer agreement with independent third parties to acquire in total 25% equity interests in Quiksol Group at a consideration of US$3,044,000 (equivalent to approximately HK$23,741,000), which is satisfied by cash consideration of US$2,149,000 (equivalent to approximately HK$16,762,000) and 4,105,030 new shares of the Company. The acquisition was completed on 31 October 2018. As a result of the shareholders' agreement with the other shareholders of Quiksol HK, the Group is given the power to control the majority of votes on the board of directors of Quiksol HK that direct its relevant activities and veto rights to certain decisions and actions by the board and shareholders of Quiksol HK. As such, the Group has obtained control over Quiksol Group upon the acquisition and accounted it as a subsidiary with goodwill arising as a result of the acquisition. Quiksol Group is engaged in the trading of electronic components and was acquired by the Group to continue the expansion of the Group's electronic components operations.

23. ACQUISITION OF SUBSIDIARIES (continued)

Acquisition-related cost amounted to HK$895,000 and was recognised as administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

The acquisition has been accounted for using the acquisition method of accounting.

During the current period (i.e. within the measurement period), the fair value assessment in respect of the acquisition has completed as follows:

	Amount recognised at the date of acquisition	Adjustments	Amount recognised at the date of acquisition
	HK$'000	HK$'000	HK$'000
			(restated)
Fair value of assets and liabilities recognised at the date of acquisition			
Property, plant and equipment	870	–	870
Inventories	8,826	–	8,826
Bank balances and cash	11,073	–	11,073
Trade receivables (Note iii)	59,425	–	59,425
Deposits, prepayment and other receivables	5,035	–	5,035
Trade payables	(21,534)	–	(21,534)
Other payables and accrued charges	(1,838)	–	(1,838)
Contract liabilities	(4,128)	–	(4,128)
Amount due to a shareholder of Quiksol Group	(2,117)	–	(2,117)
Bank and other borrowings	(6,796)	–	(6,796)
Tax liabilities	(2,778)	–	(2,778)
Intangible asset	5,990	5,969	11,959
Deferred tax liability	(988)	(985)	(1,973)
Total fair value of identifiable net assets acquired	51,040	4,984	56,024
Cash consideration			16,762
Share consideration (Note i)			6,979
Consideration transferred			23,741
Plus: Non-controlling interest			42,018
Less: Net assets acquired			(56,024)
Goodwill arising on acquisition (Note ii)			9,735

Notes:

(i) As part of the consideration for the acquisition, 4,105,030 ordinary shares of the Company with par value of US$0.00001 each were issued. The fair value of the ordinary shares of the Company, determined using the published price available at the date of the acquisition, amounted to HK$6,979,000.

(ii) Goodwill arose in the acquisition of Quiksol Group because of the expected synergies on integration of services and marketing with the Group, revenue growth, future market development and the assembled workforce of Quiksol Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of goodwill arising on these acquisitions is expected to be deductible for tax purposes.

(iii) The fair value of trade receivables at the date of acquisition amounted to HK$64,460,000 while their gross contractual amounts amounted to HK$65,673,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$1,213,000.

SMART-CORE HOLDINGS LIMITED
芯智控股有限公司