

SMART-CORE HOLDINGS LIMITED

芯智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2166

INTERIM REPORT 2020



CONTENTS

Corporate Information	2
Financial Highlights	4
Management Discussion and Analysis	5
Other Information	15
Report on Review of Unaudited Condensed Consolidated Financial Statements	20
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	21
Condensed Consolidated Statement of Financial Position	22
Condensed Consolidated Statement of Changes in Equity	24
Condensed Consolidated Statement of Cash Flows	26
Notes to the Unaudited Condensed Consolidated Financial Statements	27





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. YAN Qing

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. YAU Chak Man (ACCA, HKICPA)

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 IN HONG KONG

15/F, Tower B, Regent Centre
70 Ta Chuen Ping Street
Kwai Chung
New Territories, Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
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
25th Floor, Three Exchange Square
8 Connaught Place
Central, Hong Kong

As to PRC law

Commerce & Finance Law offices
23/F, Building A,
CASC Plaza,
Haide 3rd Road,
Shenzhen, PRC

SHARE REGISTRARS

Hong Kong

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Cayman Islands

Maples Fund Services (Cayman) Limited
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		
	2020	2019	Change
	HK\$'000	HK\$'000	
Revenue	2,126,863	2,090,115	1.76%
Gross profit	120,298	124,625	-3.47%
Profit before tax	42,227	38,052	10.97%
Profit for the period	34,840	31,916	9.16%
Profit attributable to owners of the Company	29,816	29,792	0.08%
Earnings per share ("EPS")			
— Basic (HK cents)	6.05	5.91	2.37%
— Diluted (HK cents)	N/A	5.91	N/A
Average turnover days of inventories — days ⁽¹⁾	17	30	-43.33%
Average turnover days of trade receivables — days ⁽²⁾	63	50	26.00%
Average turnover days of trade payables — days ⁽³⁾	35	32	9.38%
	As at	As at	
	30 June	31 December	
	2020	2019	Change
	HK\$'000	HK\$'000	
Total assets	1,503,082	1,578,161	-4.76%
Total liabilities	846,068	946,165	-10.58%
Net assets	657,014	631,996	3.96%
Net financial position ⁽⁴⁾	(123,594)	(248,747)	-50.31%
Gearing ratio — % ⁽⁵⁾	56.4	72.3	-21.99%
Current ratio ⁽⁶⁾	1.6	1.5	6.67%

Notes:

- (1) Average turnover days of inventories is derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant period by cost of sales and multiplying by 181 days.
- (2) Average turnover days of trade receivables is derived by dividing the arithmetic mean of the opening and closing balances of net trade receivables for the relevant period by revenue and multiplying by 181 days.
- (3) Average turnover days of trade payables is derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant period by cost of sales and multiplying by 181 days.
- (4) 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

In the first half of 2020, the coronavirus disease (COVID-19) continued to spread around the world, while no sign of easing can be seen in global economic and trade frictions, which may lead to a relatively substantial decline in global economic and trade development in 2020. According to the latest report released by the IMF (International Monetary Fund), the global GDP is expected to shrink by 4.9% in 2020. The global economy is in recession, and the segmented markets of semiconductor are mixed. According to the chip sales data from January to April in 2020 provided by SIA (Semiconductor Industry Association) and WSTS (World Semiconductor Trade Statistics), the sales of semiconductor chip market continuously increased at a modest rate. IC Insights (a semiconductor market research company) also put forward optimistic forecast data in the report released in June of this year, although the epidemic has caused catastrophic impact on the global economy, the worldwide semiconductor chip market will still grow by 3.3% in 2020 to reach US\$425.9 billion and the market growth rate is expected to accelerate to 6.2% in 2021.

The outbreak of the epidemic has affected the work resumption of the downstream electronics manufacturers of Smart-Core Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”, “**we**” or “**our**”) and the completion rate of export orders, thus the sales performance of the Group in the first half of the year has been affected as well. The sales performance of the television (“**TV**”) product division and the smart terminals product division of the Group’s authorised distribution business experienced a relatively significant decline, while the sales performance of product divisions such as the optoelectronic displays, communication, security products, memory products and the Group’s independent distribution business enjoyed substantial growth. On the whole, the Group has overcome the adverse effects caused by the epidemic in the first half of 2020 with the overall operating conditions remain stable. The realised sales reached HK\$2,126.9 million, representing a slight increase of 1.8% year-on-year, and the gross profit amounted to HK\$120.3 million with a year-on-year decrease of 3.5%.

AUTHORISED DISTRIBUTION

Television Products

The TV set market is greatly affected by the epidemic, therefore resulted in substantial fluctuation in the shipments of TV main chips. According to the shipment figures, due to the traditional Chinese New Year holiday coupled with the outbreak of the domestic epidemic in the first quarter, in addition to the setback of the shipment of domestic sales of TV set, the work resumption after Chinese New Year was also thwarted, and certain overseas orders were not fulfilled. In the second quarter, with the rapid spread of the epidemic around the world, some major sports events were cancelled or postponed, and overseas markets were almost in a state of shutdown, overseas orders began to resume only until various countries gradually unblocked and restarted economy at the end of the second quarter. According to statistics from TrendForce (a market research company), the shipment volume of TV panel in the first half of 2020 was 129.05 million units, representing a year-on-year decrease of 8.4%. The sluggish demand in the terminal market has led to the Group’s sales of the TV product chips amounted to HK\$718.5 million in the first half of 2020 with a sharp drop of 27.7% compared to 2019.



MANAGEMENT DISCUSSION AND ANALYSIS

Memory Products

According to a report released in April by the market research organisation Gartner, the sales revenue of memory chips is expected to account for 30% of the global semiconductor market in 2020, and the amount will reach US\$124.7 billion with an increase of 13.9%. Gartner remains optimistic to the memory chip industry. Market information revealed, in the first half of 2020, affected by the epidemic, manufacturers were worried about the unstable upstream supply caused by the epidemic, customers generally took action for bulk stocks in the first quarter, driving the significant growth in the sales performance of memory chips in the first quarter. Due to the slump in orders resulted from the global spread of the epidemic in the second quarter, as well the unburdening inventory of most customer, there was a lack of demand in the memory market and prices began to decline. On the whole, the sales performance of the memory products division in the first half of 2020 realised HK\$255.5 million, representing an increase of 16.0% over the same period last year.

Optoelectronic Displays

The Group's optoelectronic display product line mainly focuses on the market promotion and sales of related chips in the fields of liquid crystal displays, touch screen, LCD screen driver, and industrial control. Information from Sigmaintell (a research and consulting company) revealed, along with the gradual shut down of panel manufacturers in South Korea which has led to certain LCD production lines shifting to producing OLED panels, the market structure of large-size LCD panels has changed and the market share of domestic panel manufacturers has begun to increase significantly, which is expected to exceed 50% for the first time in 2020 and is promising to reach around 70% in the future. The increase in the market share of domestic manufacturers will directly drive the rapid growth of demand for electronic components related to screen modules and stimulate the increase brought by the sales of optoelectronic display products.

The growing popularity of multi-camera smart phones has brought about a substantial increase in consumption of cameras, and the sales performance of the CMOS sensor product line has also recorded a significant increase over the same period of last year. In addition, during the epidemic, working and entertaining at home has driven the rapid growth in the demand of LCD monitors, notebooks, tablets and projectors, which has promoted the increase in the sales of optoelectronic display-related product lines. On the whole, in the first half of 2020, the accumulative sales of the optoelectronic display product line amounted to HK\$398.5 million, representing a substantial increase of 105.3% over the same period of last year.

Smart Terminals

In the first half of the year, the overall demand for the overseas set-top box market was sluggish, especially in the Indian and European markets, product imports in certain markets remained largely stagnant. In the domestic market, the traditional set-top boxes of radio and television operators and the IPTV boxes of the three major telecom operators also suffered from a sharp drop in demand this year. Insufficient market demand casted comparatively great impact on downstream complete set manufacturers, resulting in a relatively significant year-on-year decline in the Group's sales of set-top box chips for smart terminals. In the first half of 2020, the accumulative sales of smart terminals amounted to HK\$122.8 million, representing a substantial decline of 48.9% over the same period last year.

Others

The Company's management of other products mainly include communication products and security products. The Group's communication products business mainly targets the mobile phones, smart hardware and Internet of Things ("IoT") markets, and is subdivided into three major business segments based on product characteristics, namely memory products, radio frequency devices, and IoT communication modules. In the first half of 2020, the demand for small-capacity memory chips, radio frequency devices and communication modules of the benchmark customers from the Group's key industries recorded remarkable increase, driving the sales of communication products to achieve substantial growth and improved gross margin indicators. The business development of the security products department suffered from certain negative impacts due to the epidemic in the first half of the year and the landing and delivery of certain projects were delayed. However, we actively complemented the upstream and downstream industries to respond to the challenges brought about by changes in external environment, seized the changes in market demand, strengthened investment in the research and development of new solutions, and grasped the order demand from core customers. In the first half of the year, we sustained a leading advantage on product specifications in the industry, and our sales also achieved rapid growth.

Independent Distribution

Affected by the Chinese New Year and the epidemic, the independent distribution business basically stagnated during January and February in 2020. Relying on the sensitivity of independent distribution business, we seized the opportunity of chip shortage in individual product markets since March, and began to receive numerous orders. At the same time, we started to solve the materials shortage problems during this particular period for the top Electronic Manufacturing Services ("EMS") foundries in the industry and our business gradually resumed normal. Although the continuous downturn in the price of memory products as well as unstable market demand, we have achieved considerable sales in memory products. On the whole, the sales realised in the first half of 2020 have increased significantly compared to the same period in 2019, and the coverage of sales product category became more comprehensive. In the first half of 2020, the accumulative sales of independent distribution business amounted to HK\$243.4 million, representing a substantial increase of 43.4% over the same period in 2019.

OUTLOOK

Authorised Distribution

Television Products

Along with the restart of economy in most overseas countries, the accumulated demand for replacement in the market has been effectively released, coupled with factors such as the upcoming peak season in the second half of the year, the TV market is currently undergoing rapid recovery. In addition, large-screen TVs are regarded as an important entrance to the living room economy, more consumers spend more time at home due to the epidemic, thus the frequency and time of accessing large-screen TVs have increased, which will push up the market's demand for high-performance TVs.



MANAGEMENT DISCUSSION AND ANALYSIS

At present, TV products in overseas markets are experiencing the process of upgrading, the penetration rate of copyrighted content TV market such as Android TV, Roku TV, Fire TV, and etc., have risen rapidly during the epidemic. The compatibility advantages of the TV chips and solutions authorised by the Group in overseas markets are demonstrated in a more comprehensive way, which will be beneficial to increase the overseas market share in the second half of the year. In the domestic market, TV manufacturers of various brands focus on 8K+AI functions in the promotion of high-end new products, which will be of help in acquiring a larger market share in the high-end TV market by the Group.

According to statistics from TrendForce, TV panel shipments in the second quarter have begun to recover, with the slight year-on-year increase of 0.8% to reach 64.79 million units. Panel factories will witness growth in both sales volume and price with fully restored production capacity in the third quarter. It is estimated that TV panel shipments in the third quarter are likely to reach 67.8 million units, representing a quarterly increase of 4.6% compared with the same period last year. Therefore, the management believe that the TV market will pick up in the second half of the year, which will help TV products to achieve rebound in sales.

Memory Products

The second half of the year is the traditional peak season for the consumer electronics market, and it is expected that the demand in export market will begin to recover in the third quarter. Coupled with the increased demand for server storage for online education and remote office caused by the epidemic as well as the booming amusement game market, it is generally believed that the price of memory chips will bottom out in the third quarter, and it is expected that demand and price will rebound simultaneously in the fourth quarter. In addition, the memory products has also strengthened customer development in the fields of security, IoT, automotive, server, 5G and other fields in the first half of the year, which is likely to bring about more orders in the second half of the year. Therefore, we expect the sales performance of the memory product to sustain growth in the second half of the year.

Optoelectronic Displays

In the second half of the year, production lines of domestic panel manufacturers are fully loaded and the smartphone market began to recover, laying a foundation with firm support for the sales performance of optoelectronic displays. However, affected by the continuous spread of the epidemic, the saturation of household market and demand in the commercial market are lower than expectation, it is expected that the shipments of liquid crystal display and laptop markets may tend to remain stable or even decline slightly in the fourth quarter. Moreover, the shortage and insufficient production capacity of 8-inch wafers of upstream chip manufacturers may also give rise to the shortages or price increase in chips of screen drivers and power supplies. Therefore, in the third quarter, the sales performance of optoelectronics displays is expected to sustain rapid growth in the first half of the year, while the demand and supply may still face uncertain factors and challenges in the fourth quarter. In this regard, we need to keep close attention to ensure the sales in second half of the year may achieve satisfactory performance.

Smart Terminals

With the popularisation of 4K and Artificial Intelligence (“AI”), overseas operators generally face the demand for product transformation and upgrading. With the gradual relief of the epidemic and the restart of the economy in overseas markets, the Group will focus on the European and Southeast Asian markets in the second half of the year. Information gathered from the market shows that new market demand in Philippines and Indonesia emerged recently, Indian market began to recover and customer orders from local factories in India started to resume.

Therefore, we will keep close attention to the new bids for operators in the Southeast Asian market, arrange product layout with focus on high-end IPTV and Hybrid STB, make good use of the integration advantages of the platform solution in Wifi/NB-IoT wireless product with the primary target of local mainstream operators. Related market promotion is being carried out currently and is expected to help improve the sales performance of the smart terminals in the second half of the year.

Others

With the advent of the 5G era, the cellular IoT will experience explosive development, and it is expected that the number of connected IoT devices will reach 22.5 billion by 2021. Driven by the rapid market growth, the layout advantages of telecommunication product department in memory products, radio frequency front-ends and IoT product lines will become more obvious. Leveraging the fast lane of 5G industry development, the communication product business will continue to cultivate in depth in the three directions of memory products, radio frequency devices and IoT devices, and it is expected to achieve better performance in the second half of the year. In the field of infrastructure, the construction of railways, highways, ports, and parking lots promoted by the “the Program of Building National Strength in Transportation” will involve the construction of security systems as supporting projects, which implies the basic foundation of security product remains stable. With obvious trend of consumption upgrading, as an important part of information intelligent consumption, security is expected to enjoy synergistic development in collaboration with the IoT, big data, cloud computing and AI in 2020. Furthermore, the integration of cloud products, the empowerment of ultra-high-definition and AI will enable security smart front-end to be equipped with more and more functions. Consumer security products with pan-security as an important development goal will face another climax of development along with the upcoming 5G era, which will be beneficial to the market promotion of security solutions. In addition, we will keep putting efforts to develop the product lines in other fields with the expectation to bring more revenue to the Group in the second half of the year.

Independent Distribution

Affected by the epidemic, the fluctuation in international market demand increased, leading to the frequent shortages of materials in foundries, as well as obvious increase in sluggish inventory, which is exactly the field that independent distribution is expertise to handle with. In the second half of this year, the Group will pay more attention to business opportunities in this market, to set up a successful collaboration with clients and solve problems for our customers. In addition, some foreign foundries may accelerate the transfer of production capacity to Southeast Asia due to the uncertainty in Sino-US relations. Hence, the Group will pay more attention to the opportunities in the Southeast Asian market as well. In the future, shipments of the EMS foundries will rise gradually with the recovery of the demand in the European and American markets.



MANAGEMENT DISCUSSION AND ANALYSIS

For a long time, we are firmly optimistic to the long-term development trend of the semiconductor industry and the value of related industry chain. In the future, we are committed to continuously expand and strengthen the Group's existing authorised distribution business, combining with market changes and our own resource advantages to cover more new markets and new areas. In the independent distribution business, based on the accumulation and precipitation with our long-term partner, Quiksol International HK Pte Limited ("**Quiksol HK**"), we will actively explore the market and continuously maintain the leadership in the industry. We will also integrate with the new business type of e-commerce platforms for electronic components to form greater development synergies. In the distribution market of electronic components in overseas markets, Smart-Core DTDS Limited, a subsidiary of the Group, will rely on the Group's strong product lines and technical solutions to cover the distribution of electronic components to the Southeast Asian and Indian markets and expand to Japan and Taiwan. In the field of value-adding technology, we will integrate the Group's accumulation of IoT technology solutions and innovations of software service of Corelink (Xiamen) Technology Company Limited, a subsidiary of the Group, so as to create a new IoT PaaS service platform based on the "Hardware + Software + Cloud + Service" model and allow technological innovation and software services to better assist small and medium-sized enterprises to achieve product upgrades. We will continue to strengthen the Group's intellectual property construction, cultivate and build up the Group's core competitiveness. Furthermore, we will continue to look for suitable investment targets and entities, to grasp the counter-cyclical development opportunities in the market and trigger actions at the right time. In the future, we will continue to expand our business with a steady operation and a proactive attitude to bring better returns and long-term value to the shareholders of the Company ("**Shareholders**").

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2020, the Group's revenue amounted to HK\$2,126.9 million, representing an increase of HK\$36.8 million (1.8%) as compared with the corresponding period in 2019 (HK\$2,090.1 million). The increase in revenue level was mainly caused by the combined effect of the decrease in the sales from authorised distribution and the increase in the sales from independent distribution.

Gross profit

Our gross profit for the six months ended 30 June 2020 decreased by HK\$4.3 million (3.5%) to HK\$120.3 million as compared with the corresponding period in 2019 (HK\$124.6 million). Our gross profit margin decreased by 0.3% to 5.7% for the six months ended 30 June 2020 (six months ended 30 June 2019: 6.0%). The decrease in gross profit margin was principally the combined effect of decrease in gross profit margin from the sales of optoelectronic display products and decrease in rebate from our supplier.

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 2020, research and development expenses amounted to HK\$11.2 million, decreased by 5.9% as compared with the six months ended 30 June 2019 (HK\$11.9 million). The decrease was mainly due to reduction of the retirement benefit scheme contributions as a result of social securities relief granted by the local government authority to our PRC subsidiaries during the outbreak of COVID-19 which resulted in the decrease of staff cost.

Administrative, selling and distribution expenses

Administrative, selling and distribution expenses aggregated to HK\$69.0 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$68.5 million), which accounted for 3.2% of the revenue for the six months ended 30 June 2020 as compared with 3.3% over the corresponding period in 2019. There is no significant change in administrative, selling and distribution expenses as compared to the prior period.

Finance costs

The Group's finance costs for the six months ended 30 June 2020 amounted to HK\$9.8 million (six months ended 30 June 2019: HK\$13.9 million). The Group has entered into various financing arrangements with principal bankers. The finance costs decreased compared to the prior period which was mainly due to the decreased in average bank borrowing rate.

Profit for the period

For the six months ended 30 June 2020, the Group's profits amounted to HK\$34.8 million, representing an increase of HK\$2.9 million as compared to HK\$31.9 million for the corresponding period in 2019, a rise of 9.1%. The net profit margin for the six months ended 30 June 2020 was approximately 1.6%, which approximated to the corresponding period in 2019 (2019: 1.5%).

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 2020 amounted to HK\$29.8 million, maintaining at the same level as compared with the corresponding period in 2019.

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 expenses in connection with the Listing.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has utilised approximately HK\$133.1 million of the net proceeds as at 30 June 2020 according to the intentions set out in the prospectus of the Company dated 27 September 2016 (the “**Prospectus**”). The unutilised net proceeds have been placed as deposits with banks and are expected to be utilised as intended.

Use of Proceeds	Net proceeds	Utilised as at	Amount	Expected
	(in HK\$ million)	30 June 2020 (in HK\$ million)	remaining (in HK\$ million)	timeline for utilising the remaining Net proceeds (notes 1 and 2) (in HK\$ million)
1. Hiring additional staff for sales and marketing and business development and improvement of warehouse facilities	20.6	(20.6)	0.0	
2. Advertising and organising marketing activities for the promotion of our e-commerce platform Smart Core Planet and our new products	41.2	(36.5)	4.7	Expected to be fully utilised on or before 31 December 2021
3. Enhancing, further developing and maintain our e-commerce platform and improving our technology infrastructure	41.2	(6.3)	34.9	Expected to be fully utilised on or before 31 December 2022
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	(28.6)	33.1	Expected to be fully utilised on or before 31 December 2022
6. General working capital	20.5	(20.5)	0.0	
	<u>205.8</u>	<u>(133.1)</u>	<u>72.7</u>	

Notes:

- The expected timeline for utilising the remaining net proceeds is made based on the best estimation of the Company taking into account, among others, the prevailing and future market conditions and business developments and need, and therefore is subject to change.
- The unutilised net proceeds from the Listing are expected to be used as intended except that the original timeline for utilising the remaining net proceeds as disclosed in the Prospectus has been delayed due to, among others things, the business environment being affected by the rapid change in technology in the past few years, the Sino-US trade tension since 2018, the social unrest in Hong Kong since June 2019 and the outbreak COVID-19 since January 2020. Additional time is therefore needed for the Group to (i) identify suitable resource, including personnel, suppliers and service providers, for the development of e-commerce platform and technology infrastructure, and to (ii) identify suitable targets for acquisition or investment that meet the Group's selection criteria.

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 2020, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK\$360.4 million (31 December 2019: HK\$347.4 million). As at 30 June 2020, the outstanding bank and other borrowings of the Group was HK\$352.0 million (31 December 2019: HK\$434.8 million). The Group's gearing ratio, based on the interest-bearing borrowings and total equity, decreased from 72.3% as at 31 December 2019 to 56.4% as at 30 June 2020 as a result of the decreased level of bank and other borrowings to finance our working capital needs.

As at 30 June 2020, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK\$1,094.1 million and HK\$668.1 million (31 December 2019: HK\$955.8 million and HK\$521.0 million) respectively.

As at 30 June 2020, the Group had current assets of HK\$1,327.1 million (31 December 2019: HK\$1,394.5 million) and current liabilities of HK\$834.0 million (31 December 2019: HK\$930.7 million). The current ratio was 1.6 times as at 30 June 2020 (31 December 2019: 1.5 times).

The Group's debtor's turnover period was 63 days for the six months ended 30 June 2020 as compared to 50 days for the corresponding period in 2019. The overall debtors' turnover period was within the credit period. The increase in debtors' turnover period is due to the derecognition of receivable balance of certain customers under factoring agreements as at 31 December 2018 which lower down the average receivable balances and turnover days in prior period.

The creditors' turnover period was 35 days for the six months ended 30 June 2020 as compared with 32 days for the corresponding period in 2019. Creditors' turnover period has been maintaining at a stable level.

The inventories' turnover period was 17 days for the six months ended 30 June 2020 as compared with 30 days for the corresponding period in 2019. The decrease in inventories' turnover period is mainly caused by improvement of inventory control management.

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\$1.2 million during the six months ended 30 June 2020 (six months ended 30 June 2019: net foreign exchange loss of approximately HK\$0.5 million). At the date of this report, the Group has not adopted any foreign currency hedging policy. However, the Group will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the exposures become significant.



MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of assets

As at 30 June 2020, the financial assets at fair value through profit or loss (“**FVTPL**”) amounted to HK\$127.9 million (31 December 2019: HK\$127.8 million), trade receivable factored amounted to HK\$308.8 million (31 December 2019: HK\$308.9 million) and bank deposits amounted to HK\$132.0 million (31 December 2019: HK\$161.4 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 2020.

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 2020.

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 2020.

EVENTS AFTER THE INTERIM PERIOD ENDED 30 JUNE 2020

Up to the date of this report, the Group has no significant subsequent event after 30 June 2020 which required disclosure.

EMPLOYEE AND EMPLOYEE INCENTIVE SCHEMES

As at 30 June 2020, the Group had 408 employees, with majority based in Shenzhen, Suzhou and Hong Kong. Total employee cost for the six months ended 30 June 2020, excluding the remuneration of the directors of the Group were approximately HK\$46.8 million (six months ended 30 June 2019: approximately HK\$49.3 million). There have been no material changes to the information disclosed in the Prospectus in respect the remuneration of employees, remuneration policies, share award scheme, share option scheme and staff development.

On 19 September 2016, the Company adopted a share award scheme ("**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 2020, 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 2019: nil) and Share Option Scheme (six months ended 30 June 2019: nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2020, the Company bought back a total of 250,000 Shares on the Stock Exchange (the "**Share Repurchase**") and a total of 11,150,000 shares bought back were cancelled by the Company. Details of the purchases of shares are as follows:

<u>Month of buy-back</u>	<u>Number of Shares bought back</u>	<u>Price per Share Highest</u>	<u>Price per Share Lowest</u>	<u>Aggregate price (excluding commission fee and etc)</u>
		HK\$	HK\$	HK\$
January	250,000	1.51	1.49	376,580



OTHER INFORMATION

The Board believes that the Share Repurchase may, depending on market conditions and funding arrangements at that time, lead to an enhancement of its earning per Share, and will benefit the Company and Shareholders. Please refer to the announcement of the Company dated 26 August 2019 for further details in relation to the Company's share repurchase plan.

Save as disclosed above, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the six months ended 30 June 2020.

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

There are no changes in the Directors' biographical details which are required to be disclosed pursuant to rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") since the date of 2019 annual report of the Company.

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK2 cents per share for the six months ended 30 June 2020 and is expected to be paid on or about Wednesday, 30 September 2020 to the Shareholders whose names appear on the register of members of the Company on Friday, 18 September 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 16 September 2020 to Friday, 18 September 2020, 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 Tuesday, 15 September 2020.

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 ethics, can provide a framework that is essential to the Company's sustainable development and to safeguard the interests of the Shareholders, suppliers, customers, employees and other stakeholders.

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Except for code provision 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 2020. 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.

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 2020.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, the interests and short positions of our Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “**SFO**”) as recorded in the register required to be kept under Section 352 of the SFO; or are required, pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Number of Shares held</u>	<u>Approximate shareholding percentage</u>
Mr. Tian Weidong	Interest in a controlled corporation	262,500,000 (L)	53.25%
Mr. Wong Tsz Leung	Interest in a controlled corporation	90,000,000 (L)	18.26%
Mr. Yan Qing	Beneficial owner	1,231,509 (L)	0.25%

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 492,955,030 Shares in issue as at 30 June 2020.
- (L) represents long positions.

OTHER INFORMATION

Save as disclosed in this report, as at 30 June 2020, 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 2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed below, during the six months ended 30 June 2020, 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 on their own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any member of the Group), carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition with the business of any member of the Group, the details of which are set out in the Prospectus.

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

As at 30 June 2020, 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:

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Number of Shares held</u>	<u>Approximate shareholding percentage</u>
Mr. Tian Weidong	Interest in a controlled corporation	262,500,000 (L)	53.25%
Mr. Wong Tsz Leung	Interest in a controlled corporation	90,000,000 (L)	18.26%

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 492,955,030 Shares in issue as at 30 June 2020.
- (L) Represents long positions.

Save as disclosed above, as at 30 June 2020, the Company had not been notified by any persons who had any interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Division 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

AUDIT COMMITTEE

The Company has established an audit committee ("**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 2020 ("**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 2020 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, 25 August 2020



REPORT ON REVIEW OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF SMART-CORE HOLDINGS LIMITED

芯智控股有限公司

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the 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 21 to 44, which comprises the condensed consolidated statement of financial position as of 30 June 2020 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

25 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	NOTES	Six months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Revenue	3	2,126,863	2,090,115
Cost of sales		(2,006,565)	(1,965,490)
Gross profit		120,298	124,625
Other income		4,620	7,175
Other gains or losses, net		91	4,066
Impairment losses reversed (recognised) under expected credit loss model, net	4	7,236	(3,571)
Research and development expenses		(11,184)	(11,877)
Administrative expenses		(27,793)	(28,282)
Selling and distribution expenses		(41,232)	(40,196)
Finance costs		(9,809)	(13,888)
Profit before tax	5	42,227	38,052
Income tax expense	6	(7,387)	(6,136)
Profit for the period		34,840	31,916
Other comprehensive (expenses) income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(537)	44
Fair value loss on debt instruments at fair value through other comprehensive income		–	(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
		(537)	129
Total comprehensive income for the period		34,303	32,045
Profit for the period attributable to:			
Owners of the Company		29,816	29,792
Non-controlling interests		5,024	2,124
		34,840	31,916
Total comprehensive income for the period attributable to:			
Owners of the Company		29,271	29,904
Non-controlling interests		5,032	2,141
		34,303	32,045
Earnings per share:			
Basic (HK cents)	8	6.05	5.91
Diluted (HK cents)		N/A	5.91

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	NOTES	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	4,251	4,621
Right-of-use assets	9	17,878	21,320
Goodwill		9,735	9,735
Intangible asset		7,973	9,168
Deposits, prepayments and other receivables	11	5,672	7,192
Deferred tax asset		2,599	3,792
Financial assets at fair value through profit or loss	12	127,919	127,820
		176,027	183,648
Current assets			
Inventories		190,632	182,368
Trade receivables	10	685,166	792,032
Deposits, prepayments and other receivables	11	90,047	72,672
Tax recoverable		846	–
Pledged bank deposits	12	131,980	161,373
Bank balances and cash	12	228,384	186,068
		1,327,055	1,394,513
Current liabilities			
Trade payables	13	394,569	370,989
Other payables and accrued charges	14	61,389	73,453
Lease liabilities		7,879	7,973
Contract liabilities		17,239	18,112
Amount due to a non-controlling shareholder of a subsidiary	19b	919	255
Tax liabilities		–	25,097
Bank and other borrowings	15	351,978	434,815
		833,973	930,694
Net current assets		493,082	463,819
Total assets less current liabilities		669,109	647,467

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	NOTE	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Non-current liabilities			
Deferred tax liability		1,316	1,513
Lease liabilities		10,779	13,958
		<u>12,095</u>	<u>15,471</u>
Net assets		<u>657,014</u>	<u>631,996</u>
Capital and reserves			
Share capital	16	38	39
Reserves		597,947	578,935
		<u>597,985</u>	<u>578,974</u>
Equity attributable to owners of the Company		597,985	578,974
Non-controlling interests		59,029	53,022
		<u>657,014</u>	<u>631,996</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company												Total equity HK\$'000
	Share capital	Share premium	Other reserve	Statutory reserve	Exchange reserve	Investment revaluation reserve	Treasury share reserve	Capital redemption reserve	Share-based payment reserve	Retained profits	Sub-total	Non-controlling interests	
	HK\$'000	HK\$'000	HK\$'000 (note a)	HK\$'000 (note b)	HK\$'000	HK\$'000	HK\$'000 (note c)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2019 (audited)	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 7)	-	(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
At 1 January 2020 (audited)	39	291,841	14,051	3,480	364	-	(15,735)	-	-	284,934	578,974	53,022	631,996
Profit for the period	-	-	-	-	-	-	-	-	-	29,816	29,816	5,024	34,840
Exchange differences arising on translation of foreign operations	-	-	-	-	(545)	-	-	-	-	-	(545)	8	(537)
Profit and total comprehensive (expense) income recognised for the period	-	-	-	-	(545)	-	-	-	-	29,816	29,271	5,032	34,303
Transfer to statutory reserves	-	-	-	371	-	-	-	-	-	(371)	-	-	-
Contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	975	975
Dividends recognised as distribution (note 7)	-	(9,882)	-	-	-	-	-	-	-	-	(9,882)	-	(9,882)
Shares repurchased and cancelled	(1)	(15,731)	-	-	-	-	15,354	1	-	(1)	(378)	-	(378)
At 30 June 2020 (unaudited)	38	266,228	14,051	3,851	(181)	-	(381)	1	-	314,378	597,985	59,029	657,014



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

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 interest 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.
- (c) Treasury share reserve as at 30 June 2020 represents ordinary shares purchased by Computer Share Hong Kong Trustees Limited ("Trustee") from the market pursuant to the share award scheme of the Company for those unvested awarded shares and ungranted shares.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	51,519	60,376
Increase in inventories	(11,234)	(139,090)
Decrease (increase) in trade receivables	114,102	(213,508)
Increase (decrease) in trade payables	23,580	(92,096)
Other operating cash flows	(30,129)	(30,370)
	<hr/>	<hr/>
Cash from (used in) operations	147,838	(414,688)
Income tax paid	(32,334)	(3,384)
	<hr/>	<hr/>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	115,504	(418,072)
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(473)	(767)
Proceeds from disposal of property, plant and equipment	–	159
Loan to third parties	(31,200)	(99,060)
Loan repayment from third parties	31,200	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	1,941	3,164
Interest received	1,698	997
Placement of pledged bank deposits	(230,287)	(33,335)
Withdrawal of pledged bank deposits	259,680	580
Proceeds from disposal of debt instruments at fair value through other comprehensive income	–	4,317
	<hr/>	<hr/>
NET CASH FROM (USED IN) INVESTING ACTIVITIES	32,559	(70,800)
	<hr/>	<hr/>
FINANCING ACTIVITIES		
New bank borrowings raised	127,348	677,641
Repayment of bank and other borrowings	(210,154)	(227,771)
Dividend paid	(9,882)	(20,164)
Interest paid	(9,809)	(13,888)
Repayment to non-controlling shareholder of a subsidiary	–	(1,499)
Advance from non-controlling shareholder of a subsidiary	664	–
Repayments of lease liabilities	(3,991)	(801)
Contribution from non-controlling interests	975	–
Payment for repurchase of shares	(378)	–
	<hr/>	<hr/>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(105,227)	413,518
	<hr/>	<hr/>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	42,836	(75,354)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	186,068	159,568
Effect of foreign exchange rate changes	(520)	33
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	228,384	84,247
Represented by bank balances and cash		

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 Hong Kong Accounting Standard 34 ("**HKAS 34**") *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants 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 2019.

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. 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 amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's unaudited condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the unaudited condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

3A. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Types of goods:		
Sale of electronic components	2,126,863	2,090,115
Sales channel/product lines:		
<i>Authorised distribution</i>		
Television products	718,489	993,992
Smart terminals	122,764	240,154
Optoelectronic displays	398,456	194,122
Memory products	255,549	220,309
Others (note)	388,233	271,868
	1,883,491	1,920,445
<i>Independent distribution</i>	243,372	169,670
	2,126,863	2,090,115
Geographical markets:		
Hong Kong	1,998,851	1,984,492
The PRC	128,012	105,623
	2,126,863	2,090,115

Note: Others mainly comprising the sales of communication products and security products.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

3A. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

Disaggregation of revenue from contracts with customers (continued)

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 discharge or the customer's specific location as stipulated in the sales agreement. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods.

Advance payments may be received based on the terms of sales contract and any transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer. The normal credit term is 0 to 120 days upon delivery.

Customers can only return or request refund if the goods delivered do not meet required quality standards. As at 30 June 2020 and 2019, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

3B. OPERATING SEGMENT

Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM"), for the purpose of resources allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 *Operating Segments* are as follows:

1. Authorised distribution
2. Independent distribution

The Group commenced engaging in independent distribution along with the acquisition of Quiksol International HK Pte Limited ("Quiksol HK") and its subsidiary, and it is considered as a new operating and reporting segment by the CODM as the Group expanded its independent distribution business. Prior period segment disclosures have been represented to conform with the current year's presentation.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

3B. OPERATING SEGMENT (continued)

The following is an analysis of the Group's revenue and results by reportable and operating segments:

Six months ended 30 June 2020 (unaudited)

	Authorised distribution HK\$'000	Independent distribution HK\$'000 (note)	Segment total HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE					
Revenue from external customers	1,883,491	243,372	2,126,863	–	2,126,863
Inter-segment sales*	1,668	298	1,966	(1,966)	–
	<u>1,885,159</u>	<u>243,670</u>	<u>2,128,829</u>	<u>(1,966)</u>	<u>2,126,863</u>
Segment profit	<u>28,827</u>	<u>7,157</u>	<u>35,984</u>	<u>–</u>	<u>35,984</u>
* Inter-segment sales are charged at cost					
Less: Unallocated expenses					(2,394)
Fair value change on financial assets at fair value through profit or loss ("FVTPL")					<u>1,250</u>
Profit for the period					<u>34,840</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

3B. OPERATING SEGMENT (continued)

Six months ended 30 June 2019 (unaudited) (restated)

	Authorised distribution HK\$'000	Independent distribution HK\$'000 (note)	Segment total HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE					
Revenue from external customers	1,920,445	169,670	2,090,115	–	2,090,115
Inter-segment sales*	212	164	376	(376)	–
	<u>1,920,657</u>	<u>169,834</u>	<u>2,090,491</u>	<u>(376)</u>	<u>2,090,115</u>
Segment profit	<u>27,462</u>	<u>2,734</u>	<u>30,196</u>	<u>–</u>	<u>30,196</u>
* Inter-segment sales are charged at cost					
Less: Unallocated expenses					(2,935)
Fair value change on financial assets at FVTPL					4,547
Interest income from debt instruments at fair value through other comprehensive income ("FVTOCI")					<u>108</u>
Profit for the period					<u>31,916</u>

Note: The operating results of independent distribution include the effect arising from amortisation and deferred tax on intangible asset identified from business combination over the estimated useful life of the intangible asset.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4 to the Group's annual financial statements for the year ended 31 December 2019. Segment profit represents the profit earned by each segment without allocation of unallocated expenses, interest income from debt instruments at FVTOCI and fair value change on financial assets at FVTPL. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

4. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS (“ECL”) MODEL

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Impairment loss (reversed) recognised, net in respect of:		
Trade receivables	(7,236)	2,524
Other receivables	–	1,047
	(7,236)	3,571

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 2020 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 2019.

At 30 June 2020, the directors of the Company are of the opinion that the ECL on other financial assets subject to ECL is insignificant.

5. PROFIT BEFORE TAX

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before tax has been arrived after charging (crediting):		
Allowance for inventories	2,970	9,362
Amortisation of intangible asset (included in selling and distribution expenses)	1,195	1,195
Bank interest income (included in other income)	(547)	(889)
Cost of inventories recognised as an expense	2,003,595	1,956,128
Depreciation of property, plant and equipment	792	1,258
Depreciation of right-of-use assets	4,184	874
Interest income from loans to third parties (included in other income)	(604)	(3,164)
Staff costs (including directors’ emoluments)		
Salaries, wages and other benefits	45,862	46,325
Retirement benefit scheme contributions	3,121	5,846
Fair value gain on financial assets at FVTPL	(1,250)	(4,547)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profits Tax	6,186	7,317
PRC Enterprise Income Tax ("PRC EIT")	204	243
	6,390	7,560
Deferred tax	997	(1,424)
	7,387	6,136

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

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

Accordingly, 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 Hong Kong, they are subject to 16.5% of the estimated assessable profits under Hong Kong Profits Tax.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of entities established in the PRC is 25% during the six months ended 30 June 2020 and 2019. 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 2020 and 2019. 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 2020, 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\$34,882,000 (31 December 2019: HK\$30,974,000). 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

7. DIVIDENDS

During the current interim period, a final dividend of HK2 cents per share in respect of the year ended 31 December 2019 (2019: HK4 cents per share in respect of the year ended 31 December 2018) 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\$9,882,000 (2019: HK\$20,164,000).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK2 cents (2019: HK2 cents) per share in respect of the six months ended 30 June 2020 will be paid to the shareholders whose names appeared on the register of members as at the close of business on 18 September 2020.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company for the period is based on the following data:

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>29,816</u>	<u>29,792</u>
	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>492,714,689</u>	503,830,776
Effect of dilutive potential ordinary shares:		
Unvested shares under share award scheme	<u>N/A</u>	<u>24,254</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per shares	<u>N/A</u>	<u>503,855,030</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

8. EARNINGS PER SHARE (continued)

For the six months ended 30 June 2020 and 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 the Trustees from the market pursuant to the share award scheme of the Company for those unvested awarded shares and ungranted shares.

No diluted earnings per share is presented for the year six months ended 30 June 2020 as there was no potential ordinary shares in issue during the period.

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

During the current interim period, the Group spent approximately HK\$473,000 (six months ended 30 June 2019: HK\$767,000) to acquire furniture and fixtures.

During the current interim period, the Group entered into several new lease agreements for the use of office premises for 2 to 3 years. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised approximately HK\$1,710,000 (six months ended 30 June 2019: HK\$2,071,000) of right-of-use assets and approximately HK\$1,710,000 (six months ended 30 June 2019: HK\$2,071,000) of lease liabilities.

10. TRADE RECEIVABLES

The Group allows credit period of 0 to 120 days (31 December 2019: 0 to 120 days) to its customers. The following is an analysis of trade receivables by age, presented based on the invoice date, which approximated the respective revenue recognition date.

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
0–60 days	526,270	604,735
61–120 days	136,229	133,312
Over 120 days	22,667	53,985
	685,166	792,032

As at 30 June 2020, total bills received amounting to HK\$919,000 (31 December 2019: HK\$69,000) are held by the Group for settlement of trade receivables. The Group continue to recognise their full carrying amounts at the end of the reporting period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

11. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Deposits	58,289	35,966
Prepayments	3,730	7,228
Other receivables (note)	31,775	33,917
Value-added tax recoverable	1,925	2,753
	95,719	79,864
Analysed as:		
Non-current	5,672	7,192
Current	90,047	72,672
	95,719	79,864

Note: Other receivables as at 30 June 2020 mainly included a loan granted to a third party amounting to HK\$31,200,000 (2019: HK\$31,200,000). The loan is unsecured, carry interest at 6.5% (2019: 4.5%) per annum and repayable in June 2021 (2019: May 2020).

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

12a. Financial assets at fair value through profit or loss

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Financial assets mandatorily measured at FVTPL:		
Life insurance policies (note i)	78,138	77,128
Unlisted unit trust funds (note ii)	49,781	50,692
	127,919	127,820

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH (continued)

12a. Financial assets at fair value through profit or loss (continued)

Notes:

- (i) As at 30 June 2020 and 31 December 2019, the Group has a total of six life insurance policies with two insurance companies to insure certain directors of the Company. Under these policies, the Group is the beneficiary and policy holder and the total insured sum is US\$29,000,000 (equivalent to approximately HK\$226,200,000) in aggregate. The Group is required to pay a single premium totalling US\$9,533,000 (equivalent to approximately HK\$74,357,000) at inception. The Group can, at any time, withdraw cash based on the account value of the policy ("**Account Value**") at the date of withdrawal, which is determined by the gross premium paid plus accumulated interest earned and minus any charges made in accordance with the terms and conditions of the policy. If withdrawal is made between the 1st to 15th policy years for the first, third, fourth, fifth and sixth policies and 1st to 18th policy year for the second policy, there is a specified amount of surrender charge deducted from the Account Value. The insurance company will pay the Group a guaranteed interest for the first year and a variable return per annum afterwards (with minimum guaranteed interest rate ranged from 2% to 3% per annum) during the effective period of the policies.
- (ii) Unlisted unit trust funds invest primarily in Asian bonds, United States treasury bonds, United States mortgage-backed securities and other debt securities.

12b. Pledged bank deposits/bank balances and cash

The pledged bank deposits of the Group are pledged to banks for securing bank borrowings (note 15). 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 3% (31 December 2019: 0.001% to 3%) per annum.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

13. TRADE PAYABLES

The credit period on trade payables ranging from 0 to 60 days (31 December 2019: 0 to 60 days).

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

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
0–30 days	237,883	291,333
31–60 days	89,190	54,207
61–90 days	47,411	25,369
Over 90 days	20,085	80
	394,569	370,989

As at 30 June 2020, included in the trade payables is HK\$78,565,000 (31 December 2019: HK\$44,811,000), in which the Group issued bills to relevant creditors for settlement and remained outstanding at the end of the reporting period.

14. OTHER PAYABLES AND ACCRUED CHARGES

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Accrued purchase	30,728	36,369
Accrued expenses	21,843	29,547
Other payables	8,818	7,537
	61,389	73,453

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

15. BANK AND OTHER BORROWINGS

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Bank borrowings (Note i)	311,879	311,304
Import and export loans	40,099	105,360
	351,978	416,664
Other borrowing (Note ii)	–	18,151
	351,978	434,815
Carrying amounts of the above borrowings are repayable*: — within one year	351,978	434,815
Carrying amounts of borrowings that contain repayable on demand clause (shown under current liabilities)	351,978	416,664
Analysed as:		
Secured	348,896	414,237
Unsecured	3,082	20,578
	351,978	434,815

* 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 both periods.

The effective variable interest rates of the Group's secured bank borrowings and import and export loans are 1.99% to 4.84% (2019: 3.63% to 4.6%) per annum.

Notes:

- (i) During the current interim period, the Group factored trade receivables to banks with recourse in an aggregated amount of HK\$308,797,000 (2019: HK\$308,877,000) and accordingly the cash received on the transfer was recognised as borrowings and included in bank borrowings.
- (ii) As at 31 December 2019, the Group had obtained two loans (30 June 2020: nil) from individuals and third parties which are unsecured, interest bearing at a fixed rate with a range of 9% to 10% (30 June 2020: nil) per annum and repayable by 8 February 2020 through 18 February 2020 (30 June 2020: nil). These loans are subsequently settled during the current interim period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

16. SHARE CAPITAL

	Number of shares	Amount US\$'000
Ordinary shares of US\$0.00001 each		
Authorised:		
At 1 January 2019 (audited), 30 June 2019 (unaudited), 31 December 2019 (audited) and 30 June 2020 (unaudited)	5,000,000,000	50
Issued and fully paid:		
At 1 January 2019 (audited), 30 June 2019 (unaudited) and 1 January 2020 (audited)	504,105,030	5
Share repurchased and cancelled	(11,150,000)	—*
At 30 June 2020 (unaudited)	492,955,030	5

* Representing US\$112, equivalent to HK\$1,000.

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Shown in the financial statements as	38	39

During the six months ended 30 June 2020, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	Number of shares of US\$0.00001 each	Price per share		Aggregate consideration HK\$'000
		Highest HK\$	Lowest HK\$	
January 2020	250,000	1.51	1.49	378

During the six months ended 30 June 2020, 11,150,000 (2019: nil) shares of the Company repurchased were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable on repurchase was charged against the share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group performed discounted cash flow to derive the present value. 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 market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements and valuation processes (continued)

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2020 (unaudited)	31 December 2019 (audited)		
Financial assets at FVTPL	Unlisted unit trust funds	Unlisted unit trust funds	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
	HK\$49,781,000	HK\$50,692,000		
	Life insurance policies	Life insurance policies	Level 3	Based on account value of the policies which represent the premium paid to the policies adjusted by net yield with reference to the expected return rate (Note)
	HK\$78,138,000	HK\$77,128,000		
			Level 2	Based on discounted cash flow that capture the present value of future expected cash flows derived from the underlying assets

Note: The significant unobservable input is expected return rate and assuming other inputs were held constant, if the expected return rate increases, the fair value of the policies increases and vice versa. In the opinion of the directors of the Company, the change of expected return rate of the policies is insignificant based on historical record.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements and valuation processes (continued)

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

Reconciliation of Level 3 fair value measurements of financial assets

	Life insurance policies HK\$'000
At 1 January 2019 (audited)	75,075
Total gains in profit or loss	<u>2,053</u>
At 31 December 2019 (audited)	77,128
Total gains in profit or loss	<u>1,010</u>
At 30 June 2020 (unaudited)	<u>78,138</u>

18. PLEDGE OF ASSETS

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

	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Financial assets at FVTPL	127,919	127,820
Pledged bank deposits	131,980	161,373
	<u>259,899</u>	<u>289,193</u>

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

19. 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 transactions	Six months ended 30 June	
			2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
芯智股份有限公司 (Smart-Core Technology Co., Ltd. "SMC Taiwan")*	(i)	Sales of goods	–	2,823
Quiksol International Components Pte Ltd ("Quiksol International")	(ii)	Sales of goods Purchase of goods	– (13)	2,898 (690)

Notes:

- (i) Mr. Tian Weidong, one of the director and the ultimate controlling party of the Company, is a shareholder of SMC Taiwan.
- (ii) A non-controlling shareholder of Quiksol HK, a subsidiary of the Company, is the controlling shareholder of Quiksol International.
- * English name for identification only.

(b) Balances

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	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Short term benefits	2,524	3,146
Post-employment benefits	60	46
	2,584	3,192

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

SMART-CORE HOLDINGS LIMITED
芯智控股有限公司