

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

2024



CONTENTS

2	Corporate Information
4	Financial Highlights
5	Management Discussion and Analysis
20	Other Information
26	Independent Review Report
27	Condensed Consolidated Statement of Profit or Loss
28	Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
29	Condensed Consolidated Statement of Financial Position
31	Condensed Consolidated Statement of Changes in Equity
33	Condensed Consolidated Statement of Cash Flows
34	Notes to the Condensed Consolidated Financial Statements



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. TIAN Weidong
(Chairman of the Board and Chief Executive Officer)

Mr. WONG Tsz Leung
(redesignated as a non-executive director with effect from 1 July 2024)

Mr. LIU Hongbing

Mr. MAK Hon Kai, Stanly

Mr. ZHENG Gang *(Chief Financial Officer)*

Non-executive Director

Mr. WONG Tsz Leung
(redesignated with effect from 1 July 2024)

Independent Non-executive Directors

Dr. TANG Ming Je

Ms. XU Wei

Dr. XUE Chun

BOARD COMMITTEES

Audit Committee

Ms. XU Wei *(Chairman)*

Dr. TANG Ming Je

Dr. XUE Chun

Remuneration Committee

Ms. XU Wei *(Chairman)*

Mr. TIAN Weidong

Dr. TANG Ming Je

Nomination Committee

Mr. TIAN Weidong *(Chairman)*

Dr. TANG Ming Je

Ms. XU Wei

COMPANY SECRETARY

Mr. YAU Chak Man (ACCA, HKICPA)
(ceased with effect from 3 May 2024)

Mr. CHAK Wing Man (HKICPA)
(appointed with effect from 3 May 2024)

AUTHORISED REPRESENTATIVES

Mr. TIAN Weidong *(ceased with effect from 3 May 2024)*

Mr. WONG Tsz Leung
(ceased with effect from 1 July 2024)

Mr. ZHENG Gang
(appointed with effect from 1 July 2024)

Mr. CHAK Wing Man
(appointed with effect from 3 May 2024)

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

RSM Hong Kong
Certified Public Accountants
Registered Public Interest Entity Auditors

LEGAL ADVISOR

As to Cayman Islands law

Maples and Calder
26th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

As to Hong Kong law

KS Ng Law Office
Room 2502, 25/F
China Insurance Group Building
141 Des Voeux Road Central
Central, Hong Kong

As to PRC law

Commerce & Finance Law offices
23/F, Building A, CASC Plaza
Haide 3rd Road, Nanshan District
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		
	2024	2023	Change
	HK\$'000	HK\$'000	
Revenue	2,623,869	3,184,637	-17.6%
Gross profit	143,419	229,876	-37.6%
Profit before tax	45,229	28,378	59.4%
Profit for the period	36,917	21,116	74.8%
Profit attributable to owners of the Company	36,326	12,674	186.6%
Earnings per share ("EPS")			
— Basic (HK cents)	7.73	2.68	188.4%
— Diluted (HK cents)	7.72	2.67	189.1%
Average turnover days of inventories — days ⁽¹⁾	15	20	-25.0%
Average turnover days of trade receivables — days ⁽²⁾	53	66	-19.7%
Average turnover days of trade payables — days ⁽³⁾	24	26	-7.7%
	As at	As at	
	30 June	31 December	
	2024	2023	Change
	HK\$'000	HK\$'000	
Total assets	1,921,712	1,740,297	10.4%
Total liabilities	1,009,051	835,884	20.7%
Net assets	912,661	904,413	0.9%
Gearing ratio — % ⁽⁴⁾	56.6	44.0	28.6%
Current ratio — times ⁽⁵⁾	1.57	1.69	-7.1%

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 182 days (2023: 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 182 days (2023: 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 182 days (2023: 181 days).
- (4) Gearing ratio was calculated based on the sum of the total interest-bearing borrowings as at the respective dates divided by total equity as at the respective dates and multiplied by 100%.
- (5) Current ratio was calculated based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.

BUSINESS REVIEW

In the mid-year report of the World Economic Situation and Prospects 2024 (《2024年世界經濟形勢與展望》) updated by the United Nations in May 2024, a cautiously optimistic attitude was taken towards the global economic growth outlook, raising the forecast for global economic growth in 2024 from 2.4% predicted at the beginning of this year to 2.7%. According to the Global Economic Prospects (《全球經濟展望》), the latest report published by the World Bank in June 2024, the growth momentum in most regions of the world will be gradually strengthened, with restrictive monetary policies in major countries gradually releasing and global trade improving. However, the momentum for global economic growth remains weak, and it is expected that the global economy will grow by 2.6% in 2024, up from the earlier forecast of 2.4% at the beginning of this year.

In the first half of this year, the Chinese economy faced increased external environmental uncertainty and continued deepening structural adjustments internally. Although the economic development situation became more complex, the national economy continued its recovery trend in the first half of this year. The preliminary accounting data released by the National Bureau of Statistics of China in July revealed that the gross domestic product (GDP) in the first half of this year was RMB61.7 trillion, representing a year-on-year growth of 5.0% based on constant prices. The increased value of the manufacturing industry, the equipment manufacturing industry, and the high-tech manufacturing industry grew by 6.5%, 7.8%, and 8.7% on a year-on-year basis, respectively, which all were higher than the GDP growth rate. A report released by the United Nations in May 2024 predicts an economic growth rate of 4.8% for China in 2024, which was 0.1% higher than the forecast value released in January of this year. The report released by the World Bank in June 2024 stated that China's economic activity at the beginning of this year was stronger than expected, thus raising the economic growth forecast for China in 2024 from 4.5% at the beginning of this year to 4.8%. In general, the easing monetary policy and proactive fiscal measures would support economic output in the short term. Strengthened policy support is expected to promote investment in emerging manufacturing, and China's economic development would maintain its sound resilience.

The global semiconductor industry shows significant cyclical fluctuations, and a typical complete cycle would last for 3 to 5 years pursuant to the inventory cycle (Kitchin cycle). Since 2008, the global semiconductor market has experienced four complete cycles, with the bottom of the fifth cycle starting in Q1 2023, and it is currently in an upswing. Data from research institutions such as WSTS and Gartner indicate that the growth of the semiconductor market in 2024 will be primarily driven by memory chips. In Q1 2024, global semiconductor sales amounted to USD137.7 billion, up 15.2% year-on-year, but down 5.7% compared to Q4 2023.

The new wave of technological revolution represented by generative AI demands higher computing power, driving rapid growth in related markets such as AI servers, and leading to the AI upgrade of products like PCs, mobile phones, and XR. This also significantly boosts the demand for advanced Logic IC, new memory chips, and optical communication chips. The year 2024 is defined as the "AI+" inaugural year by the industry, during which AI-enabled smartphones and AIPC are expected to lead the way in the consumer market. Research organization Canalis predicts that from 2024 to 2028, the global share of AI smartphones and AIPC will rapidly increase from 16% and 19% to 54% and 71%, with corresponding CAGR of 63% and 42%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2024, the Group optimized its business according to industry development trends, including increasing investment in AI-related products such as memory chips and optical communication chips, and strengthening R&D investment for AI algorithms. In the first half of 2024, the Group achieved significant growth in business units related to AI, including memory chips, optical communications, smart vision, and communication products. The traditional display, optoelectronic display, integrated products, and independent distribution business units had different performances, details of which set out as follows:

Memory products

The memory industry is an important segment of the semiconductor field, and it possesses both characteristics of cyclicity and growth. In the digital age, memory chips act as the carrier for storing information, being the core component of information technology products. In 2023, major memory chip manufacturers have started to control production capacity and shipments, which gradually helped with balancing the supply and demand in the global memory chip market. Thanks to the accelerated advancement of global digital transformation and the rapid development of generative artificial intelligence (AIGC), the memory chip industry is set to enter a golden period of rapid growth in 2024. Data shows that starting from Q3 2023, the memory industry has entered a new price-hiking cycle. According to statistics from the research organization TrendForce, the shipments of mobile phones, PCs, and digital products in such markets are expected to grow in 2024. The growth rate of DRAM in the first quarter of 2024 was 20%, with an estimated growth of 13% to 18% in the second quarter of 2024. Meanwhile, the growth rate of NAND flash memory in the first quarter is 23% to 28%, and it is expected to continue growing by 15% to 20% in the second quarter.

This business unit primarily sells memory chips, such as Nand flash memory, Norflash, and DRAM, which are equipped on various smart hardware and electronic devices. In the past year and more, this business unit has actively engaged in laying out development opportunities for the next round of the memory chip industry, including introducing competitive benchmark memory chip brands and actively exploring the market. In the first half of 2024, the memory chip market has shown a pattern of simultaneous increase in both volume and price, which accordingly, is beneficial for this business unit. In the first half of 2024, the aggregate sales reached HK\$645.7 million, representing a significant year-on-year increase of 1,380.5%.

Smart Vision

This business unit provides chips and technology solutions covering video collection, transmission, memory, display, and control for application scenarios such as smart vision, anti-theft alarm, entrance control, and community security. Meanwhile, we are also actively monitoring the changes in user demands that are brought about by AI capabilities, and investing technical resources for the integration of various algorithm applications and smart vision solutions to meet new market demands.

MANAGEMENT DISCUSSION AND ANALYSIS

Driven by technologies such as AI, big data, and the Internet of Things (IoT), the trend of the security industry is further transforming towards intelligence. With the development of AI technology, more AI functions could be integrated into security video surveillance systems, such as facial recognition, behavior analysis, and anomaly detection, thereby enhancing the system's security and guarding functions. According to the latest report released by IDC, the shipments of smart cameras in the global market reached 31,530,000 units in Q1 2024, representing a year-on-year increase of 10.3%. Among them, the American market ranked first with shipments of 13,060,000 units, accounting for 41.4% of the global shipments. The Chinese market followed closely, with shipments of 11,380,000 units, accounting for 36.1% of the global market. The popularity of the smart camera in the US-China market is rapidly increasing, indicating that the smart camera market has broad application demand and growth potential globally.

According to data from the China Security and Protection Industry Association, the security industry in China showed a slow recovery trend in the first quarter of 2024. The industry prosperity index was 149, which fell into the "relatively prosperous range", increasing by 2 points compared to the previous quarter and rising by 1 point compared to the same period last year. Thanks to the market recovery and new demands brought about by the trend of intelligence, this business unit achieved aggregate sales of HK\$551.2 million in the first half of this year, representing a significant year-on-year increase of 20.6%.

Smart Displays

This business unit mainly provides SoC master chips for flat-panel TVs and commercial display products. TV shipments are affected by a wide range of factors, including macroeconomic conditions, housing market trends, technological innovation, consumer usage habits, and sports events. Affected by the global economic slowdown and fragmented viewing time, TV shipments in both the global and Chinese markets experienced varying degrees of decline in the first half of 2024, with market performance falling below expectations. According to data released by RUNTO Technology ("RUNTO") in Q1 2024, global TV shipments totaled 44,547,000 units, a year-on-year decline of 0.9%, indicating an overall contraction in market demand. In the Mainland China market, the total shipments of TV brands in the first half of this year were approximately 16,390,000 units, representing a decrease of 4.2% compared to the same period in 2023. The downturn in demand and changes on the customer side have led to a decline in chip sales for this business unit. In the first half of 2024, this business unit achieved an aggregate sales of HK\$444.5 million, representing a significant year-on-year decline of 62.0%.

Optoelectronic Display

This business unit mainly sells chips for application scenarios such as display, commercial display, laptop screen driver, and TDDI (Touch and Display Driver Integration) drivers for mobile phones. According to the data of the global LCD TV panels market released by RUNTO for Q1 2024, the global shipments of large-sized LCD TV panels in Q1 2024 were 56,500,000 units, representing a year-on-year increase of 1.3%. According to data from TrendForce, laptop shipments are expected to increase by 3.6% year-on-year to 173,000,000 units in 2024. According to the statistics from Sigmaintell, the global shipments of display panels is expected to reach 149,000,000 units in 2024, representing a slight year-on-year increase of 0.7%. Based on the data from the demand side of display panels, the market expects a slight increase in the overall shipments of large, medium, and small display panels in 2024. The shipments of panel-related chips for this business unit remained stable in the first half of this year.

MANAGEMENT DISCUSSION AND ANALYSIS

In order to concentrate on the optoelectronic display business for this business unit, and based on the Company's business layout, the power supply product line of this business unit has been divested and transferred to other business units of the Company. The divestment has had a significant impact on the total results of this business unit for the first half of this year. In summary, this business unit achieved aggregate sales of HK\$329.1 million in the first half of this year, representing a year-on-year decrease of 22.1%.

Communication Products

This business unit mainly provides small-capacity MCP memory chips and 4G/5G radio frequency PA to cellular IoT module manufacturers. Additionally, we engage in the promotion and sale of cellular IoT modules. According to the report released by Counterpoint, driven by demand from China and India, the global shipments of cellular IoT modules in the Q1 2024 increased by 7% year-on-year. The shipment of the 4G Cat 1bis module maintained a sound momentum, accounting for one-third of the market share, while the cost-effective 5G RedCap module has been in its widespread application. According to data from the Ministry of Industry and Information Technology of the PRC, from January to April 2024, the revenue from the IoT business increased by 15.4% year-on-year, and the industry continued to see sound developments. Data released by the China Academy of Information and Communications Technology has showed that from January to May 2024, the shipments of mobile phones in the Chinese market reached 122,000,000 units, representing a year-on-year growth of 13.3%. Among these, 5G mobile phones accounted for 102,000,000 units, with a year-on-year growth of 20.3%, which is higher than the growth rate of overall mobile phone shipments. Thanks to the gradual recovery in the shipments of cellular modules and the rapid growth in 5G mobile phone shipments, this business unit achieved aggregate sales of HK\$277.1 million in the first half of this year, representing a significant year-on-year increase of 27.0%.

Optical Communication

This business unit mainly distributes and sells optoelectronic devices used in optical communication modules, including transmitter chips (10G–28G DFB, 10G–50G VCSEL, 10G–50G EML, etc), and receiver chips (10G–200G InGaAs PD GaAs PD InGaAs APD, etc). These chip products are mainly applied in the optical modules for data communication in data centers. The optical module for data communication is an interface module used for optoelectronic conversion between AI servers, data center equipment, and optical fibers, primarily applied for short-distance high-speed data transmission.

The rapid development of AI has led to a significant increase in computing power demand, which in turn has triggered a surge in demand for AI servers, directly driving a rapid growth in the demand for optical modules that support them, especially for high-speed optical modules like 400G/800G. It is reported that the basic deployment for each DGX H100 system requires 32 servers, with 8 GPU cards and 12 switches equipped for each server. Under an all-optical network, 256 units of 400G optical modules and 640 units of 800G optical modules are needed, while a single DGX GH200 cluster requires 2,304 units of 800G optical modules. The report from research organization LightCounting indicates that in Q1 2024, the revenue from optical communication components increased by 72%, and in Q2 2024, the global optical module market size is expected to exceed USD2.6 billion. Thanks to the significant increase in market demand, this business unit achieved an aggregate sales of HK\$171.0 million in the first half of 2024, representing a significant year-on-year increase of 39,659.5%.

Integrated Products

The integrated product segment is responsible for the new product lines and new business direction that the Company has been focusing on developing, including AIoT, MCU, and CE product group. Among them, the AIoT product group mainly focuses on the IoT market based on LPWAN, WLAN, Bluetooth Low Energy (BLE), 2.4G, and other wireless interconnection technologies, the MCU product group focuses on expanding application opportunities of domestic MCU chips in industrial control, automotive, and smart hardware sectors, and the CE product group focuses on the consumer electronics market. Due to the adjustments and optimizations made to the business units and product lines in the first half of this year, the Company has streamlined and adjusted the product lines with lower business volume and profit margins, while valuable product lines have been handed over to other business units for better utilisation based on the synergies of business expansion. In the first half of 2024, this business unit achieved an aggregate sales of HK\$68.8 million, representing a significant year-on-year decline of 65.2%.

Independent Distribution

The semiconductor industry has a distinct inventory cycle, which consists of four stages: active destocking, passive destocking, restocking cycle, and passive restocking. The independent distribution business primarily provides customers with supply chain services for spot goods, including supplying market-scarce spot materials and assisting in handling customer-side inactive stock materials, etc. Therefore, there are usually more opportunities for spot distribution business during the restocking cycle, while the focus during the active destocking phase is mainly on assisting customers in handling inactive stock. In the past year or so, due to the global macroeconomic downturn leading to weak market demand, the electronic components market has been in a buyer's market where supply exceeds demand, and end customers have significantly reduced their demand for spot and urgent orders. As a result, in the first half of 2024, this business unit achieved an aggregate sales of HK\$26.0 million, representing a significant year-on-year decrease of 95.2%.

OUTLOOK

In the second half of 2024, as more major countries' monetary policies begin to enter an interest rate cutting phase, the global economy is shifting from the anti-inflation model of the past two years to a new state of relative balance between inflation and growth. Statistics show that among the 23 top central banks globally, only the Bank of Japan is expected not to cut interest rates in the next 18 months, while most central banks are prepared to start cutting rates within 2024. By the end of 2025, the globally compiled benchmark interest rate is expected to be lowered by 155 basis points. In a report released by the World Bank in June 2024, the global economic growth rate for 2024 was increased by 0.2% to 2.6%, and the growth rate for 2025-2026 is expected to be 2.7%. This growth rate is also much lower than the average level of 3.1% over the 10 years prior to the pandemic, indicating a moderate recovery of the global economy. The IMF believes that although the global economy is expected to show a stable recovery in the second half of 2024, the long-term dislocation of global capital and labor factors has not yet improved, which will significantly suppress the growth of global total factor productivity. The future development of the global economy will still face many challenges.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2024, China's trade surplus reached USD435 billion, while last year's annual trade surplus was USD593.9 billion. Therefore, "growth exceeded expectations" became the common evaluation by foreign media when reporting China's import and export data for the first half of this year. Correspondingly, in the first half of this year, the value growth rate of China's high-tech manufacturing industry reached 8.7%, which is higher than the growth rate of 2.7% of all industrial enterprises above the designated size. China's manufacturing transformation towards high-end, intelligent, and green development has achieved initial results. In the World Economic Outlook, a report published by the IMF in July 2024, it was noted that the recovery of domestic consumption in China has driven its economic growth, and the positive trend in China's exports has also brought more vitality to the economic growth. Overall, China's economic growth in recent years has significantly reduced its overall dependence on external factors. IMF predicts that China's economic growth will be 5% in 2024, an increase of 0.4% from the expectations reported in April this year. Meanwhile, the forecast for China's economic growth in 2025 has also been raised from 4.1% to 4.5%.

In the semiconductor industry, the World Semiconductor Trade Statistics (WSTS) believes that the two categories of integrated circuits, memory, and logic devices, will experience significant growth in 2024, driving the semiconductor market size to achieve double-digit growth within the year, with logic devices expected to grow by 10.7% and memory products expected to grow by 76.8%. Other categories, such as discrete devices, optoelectronic devices, sensors, and analog semiconductors, are expected to see a single-digit decline. From a regional perspective, as the main hubs for the current round of AI hardware and software development, the Americas and the Asia-Pacific region are expected to grow by 25.1% and 17.5%, respectively, while Europe is projected to have a slight increase of 0.5%, and Japan is expected to decline by 1.1%. WSTS believes that all regions will achieve growth by 2025, with the Americas and Asia-Pacific expected to maintain double-digit growth.

In line with the overall improvement in the global semiconductor industry, the Chinese semiconductor industry has also maintained rapid growth with the support of industrial policies and funding. Industry data shows that China is currently actively expanding the production capacity of mature process chips, with multiple new chip projects expected to be put into production in 2024. Data from the General Administration of Customs of the PRC has shown that from January to May 2024, China's chip imports increased by 13.1% to USD148.1 billion. In the first half of this year, China's chip exports increased significantly by 25.7% to RMB542.7 billion (equivalent to approximately USD76.33 billion), surpassing both the automotive and mobile phone sectors in terms of export scale and growth rate.

Although many industry research organizations are optimistic about the recovery of the semiconductor industry in 2024, the research organization Future Horizons believes that this recovery is driven by the increase in the average selling price of chips, while the shipments of chips have not significantly increased. If there is no incremental new demand in the market, the overall recovery of the semiconductor industry cannot be sustained. Accordingly, there would be numerous uncertainties ahead, as the current growth expectations for the semiconductor market are still influenced by the global economic outlook. The recovery and sound expectation for the industry generally result from factors such as "AI-driven development of the semiconductor industry", "continued increase in demand for memory chips" and "structural recovery of the consumer electronics market". However, it is also a fact that the practical application of AI is uncertain, as it has to overcome the difficulties of high costs, a lack of high-quality data, technical reliability, the practicality of the product, and a serious industry bubble raised by the unbalance between investment and return.

According to reports and forecast data from various institutions, the global and Chinese economies are expected to maintain moderate growth in the next 1-2 years, while the semiconductor industry presents both opportunities and challenges, showing an overall optimistic development trend. In summary, it is still worth looking forward to the market growth in the second half of 2024. Therefore, we hold a positive outlook on the future development of the industry, with specific projections for each business unit as follows:

Memory Products

Generative artificial intelligence (AIGC) has become an important driving force for the growth of the current memory chip market. Among them, DRAM is related to AI computing power, while NAND flash memory is related to the data memory required for AI. Intel believes the memory capacity required for a standard-configuration, entry-level AI PC to be 32 GB. MediaTek, a mobile SoC chip manufacturer, believes that a 13 billion parameter AI large model requires approximately 13 GB of memory to operate. If we add 6 GB for Apps and 4 GB for running the Android OS, the standard memory capacity required for AI smartphones reaches as high as 23 GB. In addition to AIPC and AI smartphones, autonomous vehicles also have the potential to become one of the fastest-growing markets in the memory industry over the next ten years. Micron Technology, a memory chip manufacturer, expects the automotive memory market size to increase from USD4 billion in 2021 to USD10 billion in 2025, with a compound annual growth rate (CAGR) of 28%. In 2025, each car will be equipped with 16 GB DRAM and 204 GB NAND flash memory, representing increases of 3 times and 4 times, respectively, compared to the levels in 2021. According to the report published by shujubang.com, the global automotive memory chip market will be valued at USD4.76 billion in 2023, and it is expected to grow to USD10.25 billion by 2028, driven by advanced autonomous driving, indicating that the market has broad growth prospects.

Currently, the global digital economy and AI are driving the rapid development of the semiconductor industry, leading to a continuous increase in demand for memory chips. Strong market demand has brought about industry prosperity. The research report released by Morgan Stanley has raised the price-hiking expectations for DRAM and NAND chips in the third quarter of this year, with the increase adjusted from the original expectation of 8-10% to 13-20%. Samsung also plans to continue increasing the prices of memory chips in Q3 2024, with an expected price hike of 10% to 15%. Against the backdrop of rising volume and price, it is expected that the global memory chip market size will see significant growth in 2024. WSTS estimates that in 2024, the global memory chip market size will grow significantly by 45% to USD129.8 billion. This business unit primarily sells various types of memory chips. Considering strong product line resource and proactive business layout in the earlier stages, we maintain an optimistic outlook on the business performance of this unit for the second half of this year.

Smart Vision

Benefiting from the urbanization process, technological advancements, and market demand, the security market not only has a large market scale but also maintains a growth trend. Driven by technologies such as AI, big data, and IoT, the trend of the security industry transforming towards intelligence is becoming increasingly evident. Intelligent security refers to the integration of functions such as video collection, data transmission, anomaly alerts, and business scenario management across various industries through the application of technologies like video data structured analysis, cloud computing, and cloud memory. It involves storing, retrieving, and intelligently analyzing data to provide a comprehensive system for anomaly alarms and decision support, primarily applied in three major scenarios: homes, communities, and cities. The global smart security market has shown rapid growth in recent years and is expected to maintain a high growth rate in the coming years.

MANAGEMENT DISCUSSION AND ANALYSIS

Smart cameras are an important component of the smart security hardware system. According to statistics from IDC, the global shipments of smart cameras reached 31,530,000 units in Q1 2024, representing a year-on-year growth of 10.3%. In terms of shipping regions, the American market ranks first with shipments of 13,060,000 units, accounting for 41.4%. The Chinese market followed closely behind, with shipments of 11,380,000 units, accounting for 36.1%. This indicates that the smart camera market has broad demand and growth potential globally. According to the research data from the Global Market Monitor, the global IP camera market size is USD14.13 billion, which is expected to reach a CAGR of 13.8% during the forecast period from 2024 to 2029.

This business unit provides diversified technical solutions and chips related to smart vision and offers various algorithm support based on application scenarios. It can be widely applied in various fields, such as security, smart display, smart home, and automotive electronics, giving rise to a consistent and promising market outlook. With the arrival of the traditional peak consumption season in the second half of this year, we hold an optimistic attitude toward the market prospects.

Smart Display

Due to insufficient growth momentum in the global economy, changes in the positioning of TV products, and shifts in consumer usage habits, the total shipments of the global TV market have continued to decline in recent years. 2024 is the year with more sports events, but the shipments of TVs have not shown significant growth. The forecast report from Sigmaintell has shown that global TV shipments are expected to increase by only 0.6% year-on-year this year, reaching 215,000,000 units.

According to data from the Qianzhan Industrial Research Institute, since 2016, the TV activation rate in China has plummeted from 70% to less than 30% in 2022, with TVs gradually becoming optional supplies rather than essential items for millions of households in China. The continuously declining activation rate, coupled with the long lifespan of TVs, slow technological upgrades in the market, and a lack of attractive features that appeal to consumers, have resulted in a weak willingness among users to upgrade. It is reported that the current replacement cycle for TVs has already exceeded 10 years, leading to a continuous decline in global TV shipments in recent years. In 2024, factors related to sports events have led to some market demand being released earlier in the first half of this year, so we maintain a cautious attitude towards the performance of this business unit in the second half of this year.

Optoelectronic Display

The research organization Omdia pointed out in its latest Large Size Display Panel Market Tracking Report (《大尺寸顯示面板市場追蹤報告》) that the shipments of 9 inches and above LCD and OLED large-size panels are expected to grow by 7.4% in 2024. Meanwhile, we also notice that the new energy vehicle industry is thriving, and the concept of smart cockpits is putting new demands on in-vehicle display systems, stimulating innovation and iteration in in-vehicle display technology. As the core interactive entry point of the cockpit, "large screens" are becoming a new trend. According to data from shujubang.com, from January to February 2024, the installation volume of central control color screens in domestic passenger vehicles was 3,076,000 units, representing a year-on-year increase of 36.1%. According to a report released by the Gongyan Industrial Research Institute, the global shipments of automotive display panels for the original equipment manufacturer market is expected to reach 220 million units in 2024, which is an important incremental market of interest for this business unit. Overall, we maintain a positive attitude towards the panel market in 2024. The growth of the panel market will be beneficial for achieving the business objectives of this business unit in 2024. In the future, we will continue to review and adjust our marketing strategies promptly based on market changes to ensure that the business develops smoothly and orderly.

Communication Products

The report released by Counterpoint indicates that the global cellular IoT module market will show signs of recovery in the second half of 2024. With the successful announcement of the first version R18 standard of 5G-Advanced being frozen in Q2 2024, it will accelerate the commercialization of 5G-A. The cost-effective 5G RedCap modules are expected to see widespread application, and the market anticipates that the IoT module market will fully recover to pre-epidemic levels by 2025.

Market research firm IoT Analytics predicts that, thanks to the rapid growth in demand for smart modules and AI cellular IoT modules, the CAGR (Compound Annual Growth Rate) for IoT modules will reach 22% by 2027. Data has shown that in 2023, smart modules accounted for only 2% of the total shipments of global cellular IoT modules, and this share is expected to rise to 10% by 2027, with a CAGR of 79% during this period. Among them, the CAGR of low AI capability modules with computing power below 5 TOPS is approximately 30% by 2027, the CAGR of medium AI capability modules with computing power between 5 and 10 TOPS is approximately 102%, while the CAGR of high AI capability modules with computing power above 10 TOPS will reach 128%.

Data released by the Ministry of Industry and Information Technology of the PRC has shown that from January to April 2024, the net increase in cellular IoT connections was 108,000,000, significantly lower than the net increase of 167,000,000 during the corresponding period in 2023, indicating a clear slowdown in growth that requires close attention moving forward. This business unit primarily provides small-capacity memory MCPs used in cellular modules, as well as 4G/5G RF power amplifiers. With the price hike of the memory chip and the increasing shipments of 4G/5G PA, there is support for the performance of this business unit in the second half of this year. Therefore, we maintain an optimistic attitude towards achieving business goals in the second half of this year.

MANAGEMENT DISCUSSION AND ANALYSIS

Optical Communication

AI can create new productivity and improve production efficiency in the industry. Currently, AI has developed to the stage of general AI and is beginning to experience explosive growth in applications across multiple fields and industries. As a new productive force in the digital economy era, computing power has become the core driving force behind the rapid development of the digital economy. According to the calculations by the China Academy of Information and Communications Technology, an investment of HK\$1 will drive an economic output of HK\$3 to HK\$4. According to calculations by IDC, IEIT SYSTEM, and Tsinghua University, based on statistical data from 15 sample countries, for every USD1 invested in IT, it can drive a digital economy output of USD15 and a GDP output of USD29.

Generative Artificial Intelligence (AIGC) is considered an important milestone in the transition of AI from 1.0 to 2.0. In the short term, it has changed the fundamental productivity tools; in the medium term, it has altered the social production relationships; and in the long term, it promotes a qualitative enhancement of the entire social productivity. AIGC has an urgent demand for computing power, which will further drive the rapid iteration of optical modules to products with specifications of 800G and above. The market expects that the production of 800G optical modules in the second half of this year will double compared to the first half. According to a report by the research organization Lightcounting, 800G optical modules are expected to become mainstream in the market by 2024, and the faster transmission rate of 1.6T will also start to ramp up. The overall market growth is expected to exceed 40%, and it is anticipated that the industry will continue to grow by over 20% in 2025. The research organization Coherent is of the view that within the next five years, the market for 800G and 1.6T optical modules for data communication will expand rapidly at a compound annual growth rate of over 40%. Thanks to the rapid growth in short-term market demand and the continued optimism for the medium to long-term market, we hold an optimistic attitude toward business growth in the second half of this year.

Independent Distribution

Industry data has shown that the overall inventory of the semiconductor industry has basically returned to a healthy level. With the demand released during the traditional peak season in the second half of this year, the delivery times for some chips have begun to extend, and there is also a trend of price-hiking, indicating that the semiconductor industry will enter a new round of stocking cycle. If the demand side of the market can effectively grow, the independent distribution business will benefit accordingly. The overseas market is another important business opportunity. We have made some progress in the first half of this year, and we will focus on expansion in the second half. In addition, the main competitive advantage of independent distribution for the provision of scarce goods procuring services to clients, which is based on a strong supplier database and an information-matching transaction system. The supplier database and information-matching transaction system of this business unit have been gradually put into use, and it is expected to assist in business expansion. Overall, the current global economic sentiment remains relatively low, alongside sluggish market demand, and the depressed spot distribution market. We maintain a cautious attitude towards achieving performance goals in the second half of this year.

Summary

Although several authoritative institutions have forecasted a moderate recovery of the global economy in 2024-2025, and the European Central Bank has also initiated its first interest rate cut in five years this June to stimulate economic growth, the overall growth rate of the global economy is still below the pre-pandemic level. This reflects that there are still many uncertainties affecting global economic development, and there is insufficient momentum for economic growth. Although the overall expectation for the Chinese economy is sound, the growth rate for the second quarter is only 4.7%, which is lower than the general market expectation. Considering the weakening of the low base effect in the second half of this year, achieving the economic growth target of 5% for the whole year will also be full of challenges.

Focusing on the semiconductor industry, according to UBS's research, AI will be one of the most profound innovations and the largest investment opportunities in human history, and AI chips will account for a significant portion of the value creation in AI. Overall, the global semiconductor industry is entering a new development stage, with enormous growth potential and attractive and vast market prospects. Multiple industry research organizations' forecast data indicates that, driven by AI and new energy vehicles, the global semiconductor market size in 2030 is expected to exceed USD1 trillion with a positive market outlook.

The Group is committed to in-depth exploration and comprehensive layout in authorized distribution, independent distribution, value-added technology, and optical communication chip manufacturing. It continues to build a business network both domestically and overseas, and actively promotes the digitalization of the company's operations, to establish an "all-round" distribution business system and capabilities. We will continue to focus on the industrial bonus brought by AI while expanding new licensing distribution businesses. We will develop a global independent distribution system, and promote the growth of value-added technology services so that we can achieve diversified and collaborative development of the Group's business. In the second half of 2024, we will enhance the Group's business quality and profitability based on sound operations and active innovation, creating more benefits and long-term value for our Shareholders.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2024, the Group's revenue amounted to HK\$2,623.9 million, representing a decrease of HK\$560.7 million (17.6%) as compared with the corresponding period in 2023 (HK\$3,184.6 million). The decrease in revenue was mainly caused by the decrease in the sales from independent distribution business.

Gross profit

Our gross profit for the six months ended 30 June 2024 decreased by HK\$86.5 million (37.6%) to HK\$143.4 million as compared with the corresponding period in 2023 (HK\$229.9 million). Our gross profit margin decreased by 1.7 percentage points to 5.5% for the six months ended 30 June 2024 (six months ended 30 June 2023: 7.2%). The decrease in gross profit margin was principally caused by a decrease in sales from independent distribution business.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2024, research and development expenses amounted to HK\$16.8 million, decreased by 1.8% as compared with the six months ended 30 June 2023 (HK\$17.1 million). The decrease was mainly due to a decrease in staff costs of our research and development personnel.

Administrative, selling and distribution expenses

Administrative, selling and distribution expenses aggregated to HK\$87.4 million for the six months ended 30 June 2024 (six months ended 30 June 2023: HK\$166.7 million), which accounted for 3.3% of the revenue for the six months ended 30 June 2024 as compared with 5.2% over the corresponding period in 2023. The decrease was mainly due to a decrease in staff costs of our selling and distribution personnel.

Finance costs

The Group's finance costs for the six months ended 30 June 2024 amounted to HK\$15.7 million (six months ended 30 June 2023: HK\$31.6 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 less bank and other borrowings used for the business of the Group.

Profit for the period

For the six months ended 30 June 2024, the Group's profits amounted to HK\$36.9 million, representing an increase of HK\$15.8 million as compared to HK\$21.1 million for the corresponding period in 2023, a rise of 74.8%. The net profit margin for the six months ended 30 June 2024 was approximately 1.4%, representing an increase of 0.7% as compared with the corresponding period in 2023 (2023: 0.7%).

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 2024 amounted to HK\$36.3 million, representing an increase of 186.6% as compared with the corresponding period in 2023 (six months ended 30 June 2023: HK\$12.7 million).

Use of proceeds from the global offering

The shares of the Company were listed (the "Listing") on the Stock Exchange on 7 October 2016. The Company issued 125,000,000 new shares with the nominal value of US\$0.00001 at HK\$1.83 per share. The net proceeds from the Listing received by the Company were approximately HK\$205.8 million after deducting underwriting fees and estimated expenses in connection with the Listing.

The Group has utilised approximately HK\$181.4 million of the net proceeds as at 30 June 2024 according to the intentions set out in the prospectus of the Company dated 27 September 2016 (the "Prospectus"). The unutilised net proceeds have been placed as deposits with banks and are expected to be utilised as intended.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of Proceeds	Net proceeds <i>(in HK\$ million)</i>	Utilised during six months ended 30 June 2024	Utilised as at 30 June 2024	Amount remaining <i>(in HK\$ million)</i>	Expected timeline for utilising the remaining net proceeds <i>(Notes 1 and 2)</i>
		<i>(in HK\$ million)</i>	<i>(in HK\$ million)</i>		<i>(in HK\$ million)</i>
1. Hiring additional staff for sales and marketing and business development and improvement of warehouse facilities	20.6	0.0	(20.6)	0.0	–
2. Advertising and organising marketing activities for the promotion of our e-commerce platform, Smart Core Planet and our new products	41.2	0.0	(41.2)	0.0	–
3. Enhancing, further developing and maintain our e-commerce platform and improving our technology infrastructure	41.2	(0.1)	(16.8)	24.4	Expected to be fully utilised on or before 31 December 2025
4. For research and development	20.6	0.0	(20.6)	0.0	–
5. Funding potential acquisition of, or investment in business or companies in the e-commerce industry or electronics industry	61.7	0.0	(61.7)	0.0	–
6. General working capital	20.5	0.0	(20.5)	0.0	–
	<u>205.8</u>	<u>(0.1)</u>	<u>(181.4)</u>	<u>24.4</u>	

Notes:

- The expected timeline for utilising the remaining net proceeds is made based on the best estimation of the Company taking into account, among others, the prevailing and future market conditions and business developments and need, and therefore is subject to change.
- The unutilised net proceeds from the Listing are expected to be used as intended except that the original timeline for utilising the remaining net proceeds as disclosed in the Prospectus has been delayed due to, among other things, the business environment being affected by the rapid change in technology in the past few years, the Sino-US trade tension in 2018, the social unrest in Hong Kong in 2019 and the outbreak of COVID-19 from January 2020 to the end of 2022. Additional time is therefore needed for the Group to identify suitable resource, including personnel, suppliers and service providers, for the development of e-commerce platform and technology infrastructure.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2024, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK\$435.8 million (31 December 2023: HK\$395.3 million).

As at 30 June 2024, the outstanding bank and other borrowings of the Group were HK\$516.6 million (31 December 2023: HK\$397.7 million). The Group's gearing ratio, which is calculated by the interest-bearing borrowings divided by total equity, increased from 44.0% as at 31 December 2023 to 56.6% as at 30 June 2024 as a result of the increase in bank borrowings.

As at 30 June 2024, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK\$2,515.8 million and HK\$1,999.2 million (31 December 2023: HK\$3,189.8 million and HK\$2,792.0 million) respectively.

As at 30 June 2024, the Group had current assets of HK\$1,577.0 million (31 December 2023: HK\$1,400.3 million) and current liabilities of HK\$1,001.6 million (31 December 2023: HK\$830.4 million). The current ratio was 1.57 times as at 30 June 2024 (31 December 2023: 1.69 times).

The Group's debtor's turnover period was 53 days for the six months ended 30 June 2024 as compared to 66 days for the corresponding period in 2023. The overall debtors' turnover period was within the credit period.

The creditors' turnover period was 24 days for the six months ended 30 June 2024 as compared with 26 days for the corresponding period in 2023. Creditors' turnover period has been maintaining at a reasonable level.

The inventories' turnover period was 15 days for the six months ended 30 June 2024 as compared with 20 days for the corresponding period in 2023. The inventories' turnover period has been maintaining at a stable level.

Foreign currency exposure

The Group's transactions are principally denominated in United States dollars and Renminbi. The Group had not experienced any material difficulties or material adverse impacts on its operation despite the fluctuations in currency exchange rates and the net foreign exchange loss of approximately HK\$0.1 million during the six months ended 30 June 2024 (six months ended 30 June 2023: net foreign exchange loss of approximately HK\$6.2 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of assets

As at 30 June 2024, the financial assets at fair value through profit or loss (“**FVTPL**”) amounted to HK\$128.5 million (31 December 2023: HK\$127.0 million), trade receivable factored amounted to HK\$238.2 million (31 December 2023: HK\$224.6 million) and bank deposits amounted to HK\$242.9 million (31 December 2023: HK\$227.5 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 2024.

Significant investment held

Save for the financial assets at FVTPL as disclosed above and the financial assets at FVTOCI and investment in associates as stated in the condensed consolidated statement of financial position, the Group did not hold any significant investments during the six months ended 30 June 2024.

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 2024.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2024, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

EVENTS AFTER 30 JUNE 2024

Up to the date of this report, the Group has no significant subsequent event after 30 June 2024 which requires disclosure.

OTHER INFORMATION

EMPLOYEE AND EMPLOYEE INCENTIVE SCHEMES

As at 30 June 2024, after the deconsolidation of Quiksol International HK Pte Limited ("**Quiksol HK**") together with its wholly-owned subsidiaries (the "**Quiksol Group**") from the Group from 31 December 2023, the Group had 327 employees (as at 30 June 2023: 645), with the majority based in Shenzhen, Suzhou and Hong Kong. Total employee cost for the six months ended 30 June 2024, excluding the remuneration of the directors of the Group were approximately HK\$53.9 million (six months ended 30 June 2023: approximately HK\$89.6 million).

On 19 September 2016, the Company adopted a share award scheme (the "**Share Award Scheme**") and conditionally approved and adopted a share option scheme (the "**Share Option Scheme**").

In relation to the Share Award Scheme, the board of directors of the Company (the "**Board**") may, from time to time, at its absolute discretion, select any of our directors, senior managers and employees of the Group to participate in the Share Award Scheme (the "**Selected Participants**"), subject to the terms and conditions set out in the Share Award Scheme. In determining the Selected Participants, the Board shall take into consideration matters including, but without limitation, the present and expected contribution of the relevant Selected Participants to the Group.

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

During the six months ended and as at 30 June 2024, no share award or share option had been granted or agreed to be granted by the Company pursuant to the Share Award Scheme and the Share Option Scheme. The Group recognised a total of HK\$0.3 million of share-based payment expenses in the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2024 (six months ended 30 June 2023: HK\$0.2 million).

As no share award and share option had been granted during the six months ended 30 June 2024, the number of awarded shares available for grant under the Share Award Scheme at the beginning and the end of the six months ended 30 June 2024 was 37,420,000 and the number of options available for grant under the Share Option Scheme at the beginning and the end of the six months ended 30 June 2024 is 50,000,000. The number of shares that may be issued in respect of options and awards granted during the reporting period divided by the weighted average number of shares in issue is approximately 0.18.

Details of movement of shares awarded under the Share Award Scheme during the six months ended 30 June 2024 were as follows:

Grantee	Date of grant	Number of share awards					Unvested as at 30 June 2024	Closing price of the awarded share immediately before the grant date	Weighted average closing price of the awarded shares immediately before the vesting date
		Unvested as at 1 January 2024	Granted during the period	Vested during the period	Cancelled during the period	Forfeited during the period			
Directors									
Mak Hon Kai Stanly	1 April 2022 ⁽¹⁾	1,000,000	-	1,000,000	-	-	-	HK\$1.35	HK\$1.30

Note:

On 1 April 2022, a total of 3,000,000 awarded shares were granted to Mr. Mak Hon Kai Stanly, an executive director of our Company. Subject to the terms of the Share Award Scheme and the fulfilment of the vesting conditions specified by the Board, the awarded shares shall be vested in three batches with each 1,000,000 awarded shares by 30 June 2022, 2023 and 2024, respectively.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2024, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

With effect from 3 January 2024, Mr. Zheng Gang has resigned as an executive director of Metaspacex Limited (formerly known as Yield Go Holdings Ltd.), a company listed on the Stock Exchange (stock code: 1796).

Save as disclosed above, there are no other material changes in the Directors' biographical details which are required to be disclosed pursuant to rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") since the date of 2023 annual report of the Company and up to the date of this report.

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK2 cents per share for the six months ended 30 June 2024 (six months ended 30 June 2023: HK nil cents per share) and is expected to be paid on or about Friday, 27 September 2024 to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 13 September 2024.

OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 11 September 2024 to Friday, 13 September 2024, 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, 10 September 2024.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining high corporate governance standards. The Board believes that good corporate governance (which includes adopting an effective management accountability system and high standard of business ethics), can provide a framework that is essential to the Company's sustainable development and to safeguard the interests of the Shareholders, suppliers, customers, employees and other stakeholders.

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix C1 to the Listing Rules as its own code of corporate governance. Except for code provision C.2.1 as disclosed below in this report, the Company has complied with the applicable code provisions of the CG Code during the six months ended 30 June 2024. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

Pursuant to code provision C.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual.

The Company deviates from code provision C.2.1 in that Mr. Tian Weidong currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of the Directors, and all Directors confirmed that they had fully complied with the Model Code for the six months ended 30 June 2024.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2024, 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 C3 to the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Number of Shares held</u>	<u>Approximate shareholding percentage⁽⁴⁾</u>
Mr. Tian Weidong ⁽¹⁾	Interest in a controlled corporation	262,500,000 (L)	53.72%
Mr. Wong Tsz Leung ⁽²⁾	Interest in a controlled corporation	52,500,000 (L)	10.74%
Mr. Liu Hongbing	Beneficial owner	37,500,000 (L)	7.67%
Mr. Mak Hon Kai, Stanly ⁽³⁾	Beneficial owner	2,500,000 (L)	0.5%

Notes:

- (1) Smart IC Limited is wholly owned by Mr. Tian Weidong. Therefore, Mr. Tian is deemed to be interested in all the shares held by Smart IC Limited.
 - (2) Insight Limited is wholly owned by Mr. Wong Tsz Leung. Therefore, Mr. Wong is deemed to be interested in all the shares held by Insight Limited.
 - (3) Mr. Mak is interested in 2,500,000 shares in terms of that the Company granted him 3,000,000 shares under the Share Award Scheme, of which 2,500,000 shares have been vested, 500,000 shares were forfeited as certain terms of the award were not achieved.
 - (4) Based on 488,681,030 shares in issue as at 30 June 2024.
- (L) represents long positions.

Save as disclosed in this report, as at 30 June 2024, 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 2024.

OTHER INFORMATION

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed below, during the six months ended 30 June 2024, none of the Directors has an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

In order to ensure that direct competition does not develop between the Group and each of Mr. Tian and Smart IC Limited (the “**Controlling Shareholders**”)’s other activities, our Controlling Shareholders have entered into the deed of non-competition dated 19 September 2016 executed by controlling shareholders in favour of the Company, pursuant to which, 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 2024, so far as the Directors are aware, the following persons have interests or short positions in the shares or underlying shares of the Company, as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

<u>Name of shareholders</u>	<u>Nature of Interest</u>	<u>Number of Shares held</u>	<u>Approximate shareholding percentage⁽³⁾</u>
Smart IC Limited ⁽¹⁾	Beneficial owner	262,500,000 (L)	53.72%
Insight Limited ⁽²⁾	Beneficial owner	52,500,000 (L)	10.74%

Notes:

- (1) Smart IC Limited is wholly owned by Mr. Tian Weidong. Therefore, Mr. Tian is deemed to be interested in all the shares held by Smart IC Limited.
- (2) Insight Limited is wholly owned by Mr. Wong Tsz Leung. Therefore, Mr. Wong is deemed to be interested in all the shares held by Insight Limited.
- (3) Based on 488,681,030 shares in issue as at 30 June 2024.
- (L) Represents long positions.

Save as disclosed above, as at 30 June 2024, the Company had not been notified by any persons who had any interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Division 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

AUDIT COMMITTEE

The Company has established an audit committee, comprising three independent non- executive Directors, namely Dr. Tang Ming Je, Ms. Xu Wei and Dr. Xue Chun. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide comment and advice to the Board. The audit committee has reviewed the interim results of the Group for the six months ended 30 June 2024 (the “**interim financial statements**”) and discussed with the external auditors on the result of an independent review of the interim financial statements as well as with the management on the accounting policies adopted by the Group, internal controls and financial reporting matters of the Group.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2024 containing all the information required by the Listing Rules and other applicable laws and regulations has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.smart-core.com.hk).

APPRECIATION

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

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

Hong Kong, 23 August 2024

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF SMART-CORE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 27 to 56 which comprises the condensed consolidated statement of financial position of the Company and its subsidiaries as at 30 June 2024 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory information. 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 are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

RSM Hong Kong

Certified Public Accountants
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong
23 August 2024

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2024

	Note	Six months ended 30 June	
		2024	2023
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	5	2,623,869	3,184,637
Cost of sales		(2,480,450)	(2,954,761)
Gross profit		143,419	229,876
Other income	6	9,041	20,752
Other gains or (losses), net	7	1,367	(4,498)
Reversal of/(impairment losses) on trade receivables		7,748	(167)
Research and development expenses		(16,767)	(17,073)
Administrative expenses		(36,060)	(56,267)
Selling and distribution expenses		(51,370)	(110,422)
Share of results of associates		3,581	(2,269)
Finance costs		(15,730)	(31,554)
Profit before tax		45,229	28,378
Income tax expense	8	(8,312)	(7,262)
Profit for the period	9	36,917	21,116
Attributable to:			
Owners of the Company		36,326	12,674
Non-controlling interests		591	8,442
		36,917	21,116
Earnings per share	11		
Basic		7.73 HK cents	2.68 HK cents
Diluted		7.72 HK cents	2.67 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	36,917	21,116
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(5,115)	(6,741)
Share of other comprehensive income of associates	287	(1,345)
Other comprehensive income for the period, net of tax	(4,828)	(8,086)
Total comprehensive income for the period	32,089	13,030
Attributable to:		
Owners of the Company	31,566	4,968
Non-controlling interests	523	8,062
	32,089	13,030

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

	Note	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	6,792	7,289
Right-of-use assets	13	11,671	8,143
Goodwill		20,159	20,159
Intangible assets		5,527	6,316
Club debentures		5,850	6,019
Financial assets at FVTOCI		40,265	41,378
Financial assets at fair value through profit or loss (FVTPL)		132,774	131,439
Investment in associates		117,749	113,881
Deposits	15	2,281	2,315
Deferred tax assets		1,668	3,033
		344,736	339,972
Current assets			
Inventories		179,893	220,564
Trade and bills receivables	14	862,967	656,543
Loan to an associate		21,473	–
Amount due from an associate		–	39,090
Prepayments, deposits and other receivables	15	76,794	86,531
Current tax assets		–	2,320
Pledged bank deposits	16	242,865	227,472
Bank and cash balances	16	192,984	167,805
		1,576,976	1,400,325
Current liabilities			
Trade and bills payables	17	392,457	265,560
Contract liabilities		12,405	18,978
Loan from an associate		–	78,039
Amounts due to associates		11,423	3,514
Bank and other borrowings	19	513,510	394,141
Other payables and accrued charges	18	62,964	63,368
Lease liabilities		7,544	6,817
Current tax liabilities		1,325	–
		1,001,628	830,417
Net current assets		575,348	569,908
Total assets less current liabilities		920,084	909,880

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

	Note	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Non-current liabilities			
Lease liabilities		4,344	1,872
Bank and other borrowings	19	3,079	3,595
		7,423	5,467
NET ASSETS			
		912,661	904,413
Capital and reserves			
Share capital	21	38	38
Reserves		912,425	904,700
Equity attributable to owners of the Company		912,463	904,738
Non-controlling interests		198	(325)
TOTAL EQUITY			
		912,661	904,413

Approved by the Board of Directors on 23 August 2024

Tian Weidong
Chairman

Zheng Gang
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2024

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Statutory reserve HK\$'000	Foreign currency translation reserve HK\$'000	Treasury share reserve HK\$'000	Share award reserves HK\$'000	Capital redemption reserves HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2023 (Audited)	38	153,398	14,051	13,812	(5,356)	(27,167)	1,279	1	723,310	873,366	327,557	1,200,923
Profit for the period	-	-	-	-	-	-	-	-	12,674	12,674	8,442	21,116
Other comprehensive income	-	-	-	-	(7,706)	-	-	-	-	(7,706)	(380)	(8,086)
Total comprehensive income for the period	-	-	-	-	(7,706)	-	-	-	12,674	4,968	8,062	13,030
Transfer to statutory reserves	-	-	-	132	-	-	-	-	(132)	-	-	-
Shares repurchased and not yet cancelled (note 21)	-	-	-	-	-	(6,879)	-	-	-	(6,879)	-	(6,879)
Dividend recognised as distribution (note 10)	-	(28,262)	-	-	-	-	-	-	(28,262)	-	-	(28,262)
Distribution paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(23,400)	(23,400)
Recognised of equity-settled share-based expense (note 22)	-	-	-	-	-	-	167	-	-	167	-	167
Share vested under share award scheme (note 22)	-	-	-	-	-	918	(685)	-	(233)	-	-	-
Changes in equity for the period	-	(28,262)	-	132	(7,706)	(5,961)	(518)	-	12,309	(30,006)	(15,338)	(45,344)
At 30 June 2023 (Unaudited)	38	125,136	14,051	13,944	(13,062)	(33,128)	761	1	735,619	843,360	312,219	1,155,579

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2024

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Statutory reserve HK\$'000	Foreign currency translation reserve HK\$'000	Treasury share reserve HK\$'000	Share award reserves HK\$'000	Capital redemption reserves HK\$'000	Financial assets at FVTOCI reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2024 (Audited)	38	125,136	14,051	13,738	(8,739)	(34,351)	1,066	1	(546)	794,344	904,738	(325)	904,413
Profit for the period	-	-	-	-	-	-	-	-	-	36,326	36,326	591	36,917
Other comprehensive income	-	-	-	-	(4,760)	-	-	-	-	-	(4,760)	(68)	(4,828)
Total comprehensive income for the period	-	-	-	-	(4,760)	-	-	-	-	36,326	31,566	523	32,089
Transfer to statutory reserves	-	-	-	2,001	-	-	-	-	-	(2,001)	-	-	-
Dividend recognised as distribution (note 10)	-	(23,469)	-	-	-	-	-	-	-	-	(23,469)	-	(23,469)
Recognised of equity-settled share-based expense (note 22)	-	-	-	-	-	-	304	-	-	-	304	-	304
Share vested under share award scheme (note 22)	-	-	-	-	-	1,815	(1,370)	-	-	(445)	-	-	-
Purchase of share under share award scheme (note 22)	-	-	-	-	-	(676)	-	-	-	-	(676)	-	(676)
Changes in equity for the year	-	(23,469)	-	2,001	(4,760)	1,139	(1,066)	-	-	33,880	7,725	523	8,248
At 30 June 2024 (Unaudited)	38	101,667	14,051	15,739	(13,499)	(33,212)	-	1	(546)	828,224	912,463	198	912,661

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2024

	Note	Six months ended 30 June	
		2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
OPERATING ACTIVITIES			
Operating cash flows before movements in working capital		51,090	69,452
Decrease/(increase) in inventories		34,782	(80,480)
(Increase)/decrease in trade receivables		(198,974)	107,718
Increase in trade payables		126,897	160,059
Other operating cash flows		2,903	(50,901)
Cash from operations		16,698	205,848
Income tax paid		(3,355)	(28,435)
NET CASH GENERATED FROM OPERATING ACTIVITIES		13,343	177,413
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(778)	(3,755)
Proceeds from disposals of property, plant and equipment		10	18
Purchase of financial assets at FVTPL		–	(11,700)
Purchase of equity instrument at FVTOCI		–	(40,907)
Dividend received from an associate		39,090	–
Loan to an associate		(13,673)	–
Interest received		5,420	10,905
Net placement of pledged bank deposits		(15,393)	(36,327)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		14,676	(81,766)
FINANCING ACTIVITIES			
New bank and other borrowings raised		1,481,983	3,034,399
Repayment of bank and other borrowings		(1,358,480)	(3,064,126)
Dividend paid		(23,469)	(28,262)
Distribution paid to non-controlling interests		–	(23,400)
Interest paid		(15,591)	(31,554)
Repayment to non-controlling shareholders of a subsidiary		–	(33,053)
Repayment of loan from an associate		(78,039)	–
Repayments of lease liabilities		(5,190)	(8,049)
Payment for repurchase of shares		(676)	(6,879)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		538	(160,924)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		28,557	(65,277)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		167,805	494,405
EFFECT OF FOREIGN EXCHANGE RATE CHANGES			
Effect of foreign exchange rate changes		(3,378)	(3,665)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		192,984	425,463
Represented by bank and cash balances			

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements should be read in conjunction with the 2023 annual financial statements. The accounting policies (including the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2023.

2. NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS

New and amended standards adopted by the Group

The Group has applied the following amendments for the first time from 1 January 2024:

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants — Amendments to HKAS 1;
- Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause — HK Int 5 (Revised);
- Supplier Finance Arrangements — Amendments to HKAS 7 and HKFRS 7.

As a result of the adoption of the amendments to HKAS 1, the Group changed its accounting policy for the classification of borrowings as below:

“Borrowings are classified as current liabilities unless at the end of the reporting period, the Group has a right to defer settlement of the liability for at least 12 months after the reporting period.”

This new policy did not result in a change in the classification of the Group’s borrowings. The Group did not make retrospective adjustments as a result of adopting the amendments to HKAS 1.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

2. NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

New and amended standards adopted by the Group (continued)

As disclosed in the 2023 annual consolidated financial statements, The Group has supplier financial arrangements. The adoption of the amendments to HKAS 7 and HKFRS 7 will result in the Group providing more disclosures about these arrangements in the consolidated financial statements for the year ending 31 December 2024. The new disclosures are not required to be provided in the condensed consolidated financial statements.

Except for those as mentioned above, the Group did not change its accounting policies or make retrospective adjustments as a result of adopting other amended standards or revised interpretation.

Impact of new and amended standards issued but not yet adopted by the Group

In September 2023, HKICPA amended HKAS 21 to help entities to determine whether a currency is exchangeable into another currency, and which spot exchange rate to use when it is not. These new requirements will apply for annual reporting periods beginning on or after 1 January 2025. The management does not expect the amendment to have a material impact on the consolidated financial statements.

In July 2024, HKICPA issued HKFRS 18 which is effective for annual reporting periods beginning on or after 1 January 2027, with early application permitted. HKFRS 18 introduces significant changes to the presentation of financial statements, with a focus on information about financial performance present in the statement of profit or loss, which will affect how the Group present and disclose financial performance in the financial statements. The key changes introduced in HKFRS 18 relate to (i) the structure of the statement of profit or loss, (ii) required disclosures for management-defined performance measures (which are referred to alternative or non-GAAP performance measures), and (iii) enhanced requirements for aggregation and disaggregation of information. The management is currently assessing the impact of applying HKFRS 18 on the presentation and the disclosures of the consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

3. FAIR VALUE MEASUREMENTS

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The following table shows the carrying amounts and fair value of financial assets, including their levels in the fair value hierarchy. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation of fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

3. FAIR VALUE MEASUREMENTS (continued)

(a) Disclosures of level in fair value hierarchy as at 30 June 2024:

Description	Fair value measurements using		Total
	Level 2 HK\$'000	Level 3 HK\$'000	30 June 2024 HK\$'000 (Unaudited)
Recurring fair value measurements:			
Financial assets:			
Financial assets at FVTPL			
Unlisted limited partnership	3,221	–	3,221
Unlisted equity securities	1,074	–	1,074
Life insurance policies	–	128,479	128,479
Financial assets at FVTOCI			
Unlisted equity securities	40,265	–	40,265
Total	44,560	128,479	173,039

Disclosures of level in fair value hierarchy at 31 December 2023:

Description	Fair value measurements using		Total
	Level 2 HK\$'000	Level 3 HK\$'000	31 December 2023 HK\$'000 (Audited)
Recurring fair value measurements:			
Financial assets:			
Financial assets at FVTPL			
Unlisted limited partnership	3,310	–	3,310
Unlisted equity securities	1,103	–	1,103
Life insurance policies	–	127,026	127,026
Financial assets at FVTOCI			
Unlisted equity securities	41,378	–	41,378
Total	45,791	127,026	172,817

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

3. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of financial assets measured at fair value based on level 3:

	Financial assets at FVTPL	
	2024	2023
	HK\$'000	HK\$'000
Life insurance policies		
At 1 January (audited)	127,026	113,721
Purchase	–	11,700
Total unrealised gains recognised in profit or loss ^(#)	1,453	123
At 30 June (unaudited)	128,479	125,544
^(#) Include gains for assets held at the end of reporting period	1,453	123

The total gains recognised in profit or loss including those for assets held at end of reporting period are included in other gains and losses in the consolidated statement of profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

3. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2024:

The Group has a team of personnel who responsible to performs valuation or to obtain and reviewing the relevant information on these Level 3 instruments for financial reporting purposes.

This team performs valuation or to obtain and reviewing the relevant information, at least twice a year, aligning with the Group's annual and interim reporting dates. External valuation experts may also be involved and consulted when it is necessary.

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used):

Financial assets	Fair value as at 30.6.2024	Fair value as at 31.12.2023	Fair value hierarchy	Valuation techniques and key inputs
Financial assets at FVTPL	Unlisted limited partnership HK\$3,221,000	Unlisted limited partnership HK\$3,310,000	Level 2	The fair values of unlisted limited partnership are determined with reference to the recent transaction price of the investments.
	Unlisted equity securities HK\$1,074,000	Unlisted equity securities HK\$1,103,000	Level 2	The fair values of unlisted equity securities are determined with reference to the recent transaction price of the investments.
	Life insurance policies HK\$128,479,000	Life insurance policies HK\$127,026,000	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).
Financial assets at FVTOCI	Unlisted equity securities HK\$40,265,000	Unlisted equity securities HK\$41,378,000	Level 2	The fair values of unlisted equity securities are determined with reference to the recent transaction price of the investments.

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 increase 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

4. SEGMENT INFORMATION

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

- (a) Authorised distribution
- (b) Independent distribution

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

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4 to the Group's annual consolidated financial statements for the year ended 31 December 2023. Segment profit represents the profit earned by each segment without allocation of unallocated expenses, share of result of associates and fair value gain on financial assets at FVTPL. This is the measure reported to the directors for the purposes of resource allocation and performance assessment.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

4. SEGMENT INFORMATION (continued)

Information about reportable segment profit or loss:

	Authorised distribution HK\$'000	Independent distribution HK\$'000	Segment total HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2024 (Unaudited)					
Revenue from external customers	2,597,847	26,022	2,623,869	–	2,623,869
Inter-segment sales*	4,617	548	5,165	(5,165)	–
	<u>2,602,464</u>	<u>26,570</u>	<u>2,629,034</u>	<u>(5,165)</u>	<u>2,623,869</u>
Segment profit	<u>31,092</u>	<u>2,473</u>	<u>33,565</u>	<u>–</u>	<u>33,565</u>
Six months ended 30 June 2023 (Unaudited)					
Revenue from external customers	2,648,007	536,630	3,184,637	–	3,184,637
Inter-segment sales*	5,940	449	6,389	(6,389)	–
	<u>2,653,947</u>	<u>537,079</u>	<u>3,191,026</u>	<u>(6,389)</u>	<u>3,184,637</u>
Segment profit/(loss)	<u>24,609</u>	<u>(2,205)</u>	<u>22,404</u>	<u>–</u>	<u>22,404</u>

* Inter-segment sales are charged at cost

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

4. SEGMENT INFORMATION (continued)

Reconciliations of reportable segment profit or loss:

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit or loss		
Total profit of reportable segments	33,565	22,404
Unallocated amounts:		
Unallocated expenses	(1,682)	(699)
Fair value gain on financial assets at FVTPL	1,453	1,680
Share of results of associates	3,581	(2,269)
Consolidated profit for the period	36,917	21,116

Geographical information:

The Group principally operates in Hong Kong, the PRC, Singapore and Japan.

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

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

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong	1,322,132	2,444,579
The PRC	879,383	652,901
Singapore	416,603	65,858
Japan	70	6,647
Others	5,681	14,652
Consolidated total	2,623,869	3,184,637

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

5. REVENUE

(a) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Types of goods or service		
Sales of electronic components	<u>2,623,869</u>	<u>3,184,637</u>
Timing of revenue recognition		
A point in time	<u>2,623,869</u>	<u>3,184,637</u>
Sales channel/product lines		
Authorised distribution		
— Optoelectronic displays	329,107	422,227
— Memory products	645,724	43,614
— Communication products	277,050	218,192
— Smart vision	551,212	456,991
— Smart display	444,514	1,168,405
— Integrated products	68,839	197,709
— Optical communication	170,966	430
— Others	110,435	140,439
	<u>2,597,847</u>	<u>2,648,007</u>
Independent distribution	<u>26,022</u>	<u>536,630</u>
	<u>2,623,869</u>	<u>3,184,637</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

5. REVENUE (continued)

(b) Performance obligations for contracts with customers

Sale of electronic components is recognised at a point of time when control of the goods has transferred, being when the goods have been delivered to port of discharge or the customer's specific location as stipulated in the sales agreement. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods.

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

As at 30 June 2024 and 31 December 2023, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

6. OTHER INCOME

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	5,102	9,765
Technical support services income	2,560	3,210
Write back of provision for taxation	–	4,024
Government grant (Note)	458	1,839
Other	921	1,914
	<u>9,041</u>	<u>20,752</u>

Note: During the six months ended 30 June 2023 and 2024, the government grant represents subsidies received from the relevant PRC government for improvement of working capital and incentive subsidies received in relation to trading activities carried out by the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

7. OTHER GAINS OR (LOSSES), NET

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Foreign exchange losses, net	(67)	(6,152)
Fair value gain on financial assets at FVTPL	1,453	1,680
Loss on disposal of property, plant and equipment	(19)	(21)
Loss on early termination of lease	–	(5)
	1,367	(4,498)

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong Profits Tax	4,247	6,632
PRC Enterprise Income Tax ("PRC EIT")	2,246	106
Singapore Corporate Tax ("CIT")	507	117
Others	–	124
	7,000	6,979
Deferred tax	1,312	283
	8,312	7,262

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

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

8. INCOME TAX EXPENSES (continued)

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of The EIT Law, the tax rate of entities established in the PRC is 25% for both periods. As 深圳市芯智科技有限公司 (“SMC Technology SZ”) has been accredited as a “High and New Technology Enterprise” by the relevant authorities in Shenzhen for a term of three years from year 2020 to 2023 and was extended for other 3 years which will be expired in 2026, it is entitled to a reduced tax rate of 15%. Accordingly, the PRC EIT is calculated at 15% on the assessable profit of SMC Technology SZ for both periods.

Singapore CIT is calculated at 17% on the estimated assessable profit for both periods.

Withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. At 30 June 2024, 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\$61,398,000 (31 December 2023: HK\$63,193,000). No deferred tax liability has been recognised in respect of these amounts because the Group is in a position in control of the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

9. PROFIT FOR THE PERIOD

The Group’s profit for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2024	2023
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Staff costs (including directors’ emoluments)		
Salaries, wages and other allowances	39,966	71,115
Discretionary bonuses	10,278	7,311
Retirement benefit scheme contributions	6,714	13,373
Total staff costs	56,958	91,799
Amortisation of an intangible asset (included in selling and distribution expenses)	790	1,985
Depreciation of property, plant and equipment	1,047	2,040
Depreciation of right-of-use assets	4,747	7,579
Cost of inventories recognised as an expense (excluding allowance for inventories)	2,474,796	2,949,159
Allowance for inventories (included in cost of sales)	5,654	5,602

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

10. DIVIDENDS

During the current interim period, a final dividend of HK5 cents per share in respect of the year ended 31 December 2023 (2023: HK6 cents per share in respect of the year ended 31 December 2022) 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\$23,469,000 (2023: HK\$28,262,000).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK2 cents (2023: nil) per share amounting to HK\$9,774,000 (2023: nil).

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	36,326	12,674
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	469,780,068	472,827,991
Effect of dilutive potential ordinary shares arising from restricted share units ("RSU")	1,000,000	1,500,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	470,780,068	474,327,991

For the six months ended 30 June 2024 and 2023, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account the ordinary shares purchased by the Trustee from the market pursuant to the share award scheme of the Company for those unvested awarded shares and ungranted shares, adjusted by the ordinary shares vested under the share award scheme of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2024, the Group disposed furniture and fixtures with an aggregate carrying amount of HK\$30,000 (six months ended 30 June 2023: HK\$39,000) for proceeds of HK\$11,000 (six months ended 30 June 2023: HK\$18,000), resulting in a loss on disposal of HK\$19,000 (six months ended 30 June 2023: loss on disposal of HK\$21,000).

In addition, during the six months ended 30 June 2024, the Group acquired property, plant and equipment of approximately HK\$778,000 (six months ended 30 June 2023: HK\$3,755,000).

13. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2024, the Group entered into new lease agreements for the use of office premises for 1 to 3 years. On the lease commencement, the Group recognised HK\$8,453,000 right-of-use assets and HK\$8,453,000 lease liabilities (six months ended 30 June 2023: HK\$2,079,000 right-of-use assets and HK\$2,079,000 lease liabilities).

14. TRADE AND BILLS RECEIVABLES

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Trade receivables	852,881	660,030
Allowance for credit losses	(6,334)	(14,255)
	846,547	645,775
Bills receivables	16,479	10,858
Allowance for credit losses	(59)	(90)
	862,967	656,543

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 0 to 120 days (2023: 0 to 120 days). The bills receivables have a general maturity period ranging from 30 to 180 days (2023: 30 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by the directors.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

14. TRADE AND BILLS RECEIVABLES (continued)

The following is an analysis of trade receivables by age, net of allowance for credit losses, presented based on dates of transferring control of the goods, and an analysis of bills receivables by age, net of allowance for credit losses, presented based on the bills issuance date, at the end of the reporting period:

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Trade receivables:		
0 to 60 days	654,012	635,356
61 to 120 days	168,148	6,169
Over 120 days	24,387	4,250
	<u>846,547</u>	<u>645,775</u>
Bills receivables		
0 to 60 days	<u>16,420</u>	10,768

At 30 June 2024, trade and bill receivables of HK\$238,209,000 (31 December 2023: HK\$224,566,000) and HK\$16,420,000 (31 December 2023: HK\$10,768,000) were discounted to banks with full recourse respectively. No trade receivables (31 December 2023: HK\$6,129,000) were discounted to a financial institution with full recourse. The Group continues to recognise their full carrying amounts at the end of the reporting period and details are disclosed below.

As at 30 June 2024, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK\$61,735,000 (31 December 2023: HK\$68,434,000) which are past due as at the reporting date. Out of the past due balances, HK\$2,215,000 (31 December 2023: HK\$16,049,000) has been past due 90 days or above, for which the Group does not consider the balances in default as there has not been a significant change in the credit quality and amounts are still considered recoverable based on historical experience.

As at 30 June 2024, other than bills receivables amounting to HK\$16,420,000 (31 December 2023: HK\$10,768,000), the Group does not hold any collateral or other credit enhancements over these balances nor does it has a legal right of offset against any amounts owed by the Group to the counterparty.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

15. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Deposits		
— refundable	3,124	3,130
— non-refundable	62,603	63,056
Prepayments	3,618	5,866
Other receivables	3,416	2,287
Value-added tax recoverable	6,314	14,507
	79,075	88,846
Analysed as:		
Current assets	76,794	86,531
Non-current assets	2,281	2,315
	79,075	88,846

16. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group as set out in note 20 to the condensed consolidated financial statements. These deposits are subject to regulatory restrictions and are therefore not available for general use by the Group.

As at 30 June 2024, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to HK\$87,866,000 (31 December 2023: HK\$56,782,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The carrying amounts of the Group's pledged bank deposits and bank and cash balances are denominated in the following currencies:

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
RMB	87,866	56,782
HK\$	2,194	2,413
US\$	343,054	326,409
Others	2,735	9,673
	435,849	395,277

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

17. TRADE AND BILLS PAYABLES

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Trade payables	380,250	265,560
Bills payables	12,207	–
	<u>392,457</u>	<u>265,560</u>

The credit period for trade payables ranging from 0 to 60 days (2023: 0 to 60 days).

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

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
0 to 30 days	339,600	214,819
31 to 60 days	33,474	22,240
61 to 90 days	14,075	11,566
Over 90 days	5,308	16,935
	<u>392,457</u>	<u>265,560</u>

18. OTHER PAYABLES AN ACCRUED CHARGES

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Accrued purchases	39,932	33,308
Accrued staff costs	11,643	23,213
Accrued expenses	10,531	5,560
Others	858	1,287
	<u>62,964</u>	<u>63,368</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

19. BANK AND OTHER BORROWINGS

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Import and export loans	287,035	172,669
Other bank borrowings	213,450	208,518
	500,485	381,187
Other borrowings	16,104	16,549
	516,589	397,736
Analysed as:		
Secured	516,589	397,736
Unsecured	–	–
	516,589	397,736

The bank and other borrowings are repayable as follows:

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Within one year	68,121	25,837
More than one year, but not exceeding two years	1,085	1,049
More than two years, but not more than five years	1,994	2,546
	71,200	29,432
Portion of bank and other borrowings that contain a repayment on demand clause (shown under current liabilities)	445,389	368,304
	516,589	397,736
Less: Amount due for settlement within 12 months (shown under current liabilities)	(513,510)	(394,141)
	3,079	3,595

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

19. BANK AND OTHER BORROWINGS (continued)

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

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

	30 June 2024 (Unaudited)	31 December 2023 (Audited)
Effective interest rate:		
Bank borrowings including import and export loans		
— variable rates	5.98% – 7.86%	3.70% – 7.86%
— fixed rates	3.50% – 6.75%	3.55% – 6.50%
Other borrowings		
— fixed rates	4.90%	4.90%

The variable rates bank borrowings are subject to interest at Secured Overnight Funding Rate ("SOFR") plus a spread, Loan Prime Rate ("LPR") plus a spread and Hong Kong Interbank Offered Rate ("HIBOR") plus a spread (31 December 2023: SOFR plus a spread, LPR plus a spread and HIBOR plus a spread).

20. BANKING FACILITIES

At 30 June 2024, the Group had approximately HK\$1,999,000,000 (31 December 2023: HK\$2,792,000,000) of available undrawn banking facilities. Available undrawn banking facilities include bank loans, factoring loans, etc. The Group's banking facilities are secured by the followings:

- i. Financial assets at FVTPL amounted to HK\$128,479,000 (31 December 2023: HK\$127,026,000);
- ii. Pledged bank deposits amounted to HK\$242,865,000 (31 December 2023: HK\$227,472,000); and
- iii. Trade and bills receivables factored to banks amounted to HK\$254,629,000 (31 December 2023: HK\$235,334,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

21. SHARE CAPITAL

	Number of shares	Amount US\$'000
--	---------------------	--------------------

Authorised:

Ordinary shares of US\$0.00001 (31 December 2023: US\$0.00001) each

At 1 January 2023, 30 June 2023, 1 January 2024 and 30 June 2024	5,000,000,000	50
--	---------------	----

A summary of the movements in the issued share capital of the Company is as follows:

	Note	Number of shares	Amount US\$'000	Equivalent to amount HK\$'000
--	------	---------------------	--------------------	-------------------------------------

Issued and fully paid:

Ordinary shares of US\$0.00001
(31 December 2023: US\$0.00001) each

At 1 January 2023, 30 June 2023, 1 January 2024 and 30 June 2024		488,681,030	5	38
---	--	-------------	---	----

During the six months ended 30 June 2024, the Company through the Trustee repurchased 500,000 (30 June 2023: 3,550,000) ordinary shares for an aggregate consideration of HK\$676,000 (six months ended 30 June 2023: HK\$6,879,000) from the market pursuant to the share award scheme of the Company, which have been recognised under treasury share reserve as at 30 June 2024. 1,000,000 RSUs (six months ended 30 June 2023: 500,000 RSUs) have been vested and HK\$1,815,000 (six months ended 30 June 2023: HK\$918,000) has been released from treasury share reserve during the six months ended 30 June 2024.

As at 30 June 2024, 18,800,000 (31 December 2023: 19,300,000) ordinary shares were held by the Trustee under the share award scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

22. SHARE-BASED PAYMENT

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

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

	Number of RSUs	Weighted average fair value per RSU HK\$
Outstanding at 1 January 2023	2,000,000	1.37
Vested during the year	(500,000)	1.37
Forfeited during the year	(500,000)	1.37
Outstanding as at 31 December 2023 and 1 January 2024	1,000,000	1.37
Vested during the period	(1,000,000)	1.37
Outstanding as at 30 June 2024 (unaudited)	–	N/A

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

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the RSUs (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses charged to the condensed consolidated income statement.

The total expenses recognised in the condensed consolidated statement of profit or loss and other comprehensive income for share-based awards granted to the Group's director are HK\$304,000 for the six months ended 30 June 2024 (six months ended 30 June 2023: HK\$167,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

23. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with its related parties during the period:

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of goods to an associate	281	568
Purchase of goods from an associate	15,916	2,988
Interest income received/receivable from an associate	80	–
Interest expenses paid/payable to an associate	1,092	–

- (b) The remuneration of directors of the Company and other members of key management was as follows:

	Note	Six months ended 30 June	
		2024	2023
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Short-term employee benefits		2,983	2,633
Post-employment benefits		92	45
		3,075	2,678

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

24. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2024 and 31 December 2023.

25. APPROVAL OF FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 23 August 2024.

SMART-CORE HOLDINGS LIMITED
芯智控股有限公司