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芯智控股有限公司
Smart-Core Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2166)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

- The total revenue of the Group for the six months ended 30 June 2018 amounted to HK\$2,264.5 million (2017: HK\$2,277.2 million), representing a decrease of 0.6% as compared with the corresponding period in 2017.
- The gross profit of the Group amounted to HK\$100.8 million for the six months ended 30 June 2018 (2017: HK\$106.9 million), representing a decrease of 5.7% as compared with the corresponding period in 2017.
- The net profit attributable to the owners of the Company for the six months ended 30 June 2018 reached HK\$37.1 million (2017: HK\$42.4 million), representing a decrease of 12.6% as compared with the corresponding period in 2017.
- Basic and diluted earnings per share for the six months ended 30 June 2018 were HK7.41 cents (2017: HK8.48 cents) and HK7.37 cents (2017: N/A), respectively.
- The Board resolved to declare an interim dividend of HK2 cents per share for the six months ended 30 June 2018 (six months ended 30 June 2017: HK2 cents).

INTERIM RESULTS

The board (“**Board**”) of directors (the “**Directors**”) of Smart-Core Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2018 (the “**Reporting Period**”) with the comparative figures for the corresponding period in 2017. These results were based on the unaudited condensed consolidated financial statements for the Reporting Period which were prepared in accordance with the Hong Kong Accounting Standard 34 (“**HKAS 34**”) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure provision requirements of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	<i>Notes</i>	Six months ended 30 June	
		2018 <i>HK\$'000</i> (unaudited)	2017 <i>HK\$'000</i> (unaudited) (restated)
Revenue	3	2,264,513	2,277,153
Cost of sales		(2,163,695)	(2,170,232)
Gross profit		100,818	106,921
Other income		5,539	7,887
Other expense, gains and losses, net		4,919	1,711
Fair value gain on financial assets at fair value through profit or loss		821	–
Fair value loss on debt instruments at fair value through profit or loss		(1,888)	–
Research and development expenses		(11,259)	(9,764)
Administrative expenses		(27,468)	(25,413)
Selling and distribution expenses		(18,319)	(17,531)
Interest expense on bank borrowings		(10,190)	(14,140)
Profit before tax	4	42,973	49,671
Income tax expense	5	(6,020)	(7,272)
Profit for the period		36,953	42,399
Other comprehensive (expense) income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of financial statements of foreign operations		(624)	261
Fair value (loss) gain on:			
Available-for-sale investments		–	494
Investments in debt instruments at fair value through other comprehensive income		(205)	–
		(829)	755
Total comprehensive income for the period		36,124	43,154

		Six months ended 30 June	
	<i>Note</i>	2018	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
			(restated)
Profit (loss) for the period attributable to:			
Owners of the Company		37,059	42,399
Non-controlling interests		(106)	–
		<u>36,953</u>	<u>42,399</u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		36,229	43,154
Non-controlling interests		(105)	–
		<u>36,124</u>	<u>43,154</u>
Earnings per share	7		
– Basic (<i>HK cents</i>)		7.41	8.48
– Diluted (<i>HK cents</i>)		7.37	N/A

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	<i>Notes</i>	30 June 2018	31 December 2017
		HK\$'000	HK\$'000
		(unaudited)	(audited) (restated)
Non-current assets			
Property, plant and equipment		4,208	4,078
Available-for-sale investments		–	55,152
Debt instruments at fair value through profit or loss		48,919	–
Financial assets at fair value through profit or loss		63,137	–
Deposits, prepayments and other receivables		33,979	67,981
		<hr/> 150,243	<hr/> 127,211
Current assets			
Inventories		264,975	250,142
Trade and bills receivables	8	467,782	319,026
Amount due from a related company	10	2,103	–
Deposits, prepayments and other receivables		23,137	30,218
Tax recoverable		2,062	2,547
Debt instruments at fair value through other comprehensive income		10,145	–
Pledged bank deposits		63,590	69,491
Bank balances and cash		147,862	177,299
		<hr/> 981,656	<hr/> 848,723

	<i>Note</i>	30 June 2018 <i>HK\$'000</i> (unaudited)	31 December 2017 <i>HK\$'000</i> (audited) (restated)
Current liabilities			
Trade and bills payables	9	411,237	369,320
Other payables and accrued charges		83,004	91,765
Contract liabilities		8,190	–
Bank borrowings		<u>92,905</u>	<u>2,129</u>
		<u>595,336</u>	<u>463,214</u>
Net current assets		<u>386,320</u>	<u>385,509</u>
		<u>536,563</u>	<u>512,720</u>
Capital and reserves			
Share capital		39	39
Reserves		<u>536,504</u>	<u>512,556</u>
Equity attributable to owners of the Company		<u>536,543</u>	<u>512,595</u>
Non-controlling interests		<u>20</u>	<u>125</u>
		<u>536,563</u>	<u>512,720</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with HKAS 34 Interim Financial Reporting issued by the HKICPA as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules on the Stock Exchange.

The functional currency of the Company is United States Dollars (“US\$”) and accordingly, the consolidated financial statements of the Group was presented in US\$ in prior years. Starting from 1 January 2018, the Group has changed its preparation of its unaudited condensed consolidated financial statements from US\$ to Hong Kong Dollars (“HK\$”). The Directors of the Company considered that the change of presentation currency to HK\$ enables the shareholders and potential investors of the Company to have a more accurate picture of the Group by aligning the Group’s financial performance with its share price.

The effects of the change in the presentation currency have been accounted for retrospectively with comparative figures restated. The comparative amounts in the unaudited condensed consolidated financial statements are presented as if HK\$ had always been the presentation currency of the unaudited condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's unaudited condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

(a) Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers and the related Amendments*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the sales of integrated circuit and other electronic components.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

Summary of effects arising from initial application of HKFRS 15

As at 1 January 2018, advance from customers included in other payables of HK\$6,881,000 were reclassified to contract liabilities.

As at 30 June 2018, advance from customers included in other payables of HK\$8,190,000 were classified as contract liabilities.

Without application of HKFRS 15, advance from customers would remain as it is and included in other payables as at 30 June 2018.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these unaudited condensed consolidated financial statements.

(b) *Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments*

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

(a) Available-for-sale investments

From available-for-sale debt investments to fair value through profit or loss (“**FVTPL**”)

Unit trust funds mainly invest in bonds and other debt securities with a fair value of HK\$50,617,000 were reclassified from available-for-sale investments to debt instrument at FVTPL. This is because even though the Group’s business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the HKFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. Related fair value losses of HK\$2,382,000 were transferred from the investment revaluation reserve to retained profits as at 1 January 2018.

Listed debt securities with a fair value of HK\$4,535,000 were reclassified from available-for-sale investments to debt instruments at fair value through other comprehensive income (“**FVTOCI**”), as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value gains of HK\$28,000 continued to accumulate in the investment revaluation reserve as at 1 January 2018.

(b) At the date of initial application of HKFRS 9, the Group’s payment for life insurance policies of HK\$65,622,000 were reclassified from deposits, prepayments and other receivables to financial assets at FVTPL as these investments cannot meet the HKFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. The fair value losses of HK\$3,306,000 of these insurance policies previously carried at amortised cost were adjusted to financial assets at FVTPL and retained profits as at 1 January 2018.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and bills receivables and certain other receivables. To measure the ECL, trade and bills receivables and other receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of pledged bank deposits, bank balances and cash, amount due from a related company and other receivables, are measured on 12-months' ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK\$2,276,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset, except for the debt instruments which is measured at FVTOCI, the loss allowance for which is recognised against the investment revaluation reserve.

Except as described above, the application of HKFRS 9 has had no material impact on the amounts reported set out in these unaudited condensed consolidated financial statements.

The application of the other new and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these unaudited condensed consolidated financial statements and/or disclosures set out in these unaudited condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group's revenue represents the fair value of the amounts received and receivable from the sales of integrated circuit and other electronic components in Hong Kong ("HK") and the People's Republic of China (the "PRC") net of discounts and returns, during the six months ended 30 June 2018 and 30 June 2017.

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

4. PROFIT BEFORE TAX

	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(<i>unaudited</i>)	(<i>unaudited</i>) (restated)
Profit before tax has been arrived at after charging (crediting):		
Allowance for inventories	4,723	319
Bank interest income (included in other income)	(342)	(177)
Cost of inventories recognised as an expense	2,158,972	2,169,913
Depreciation of property, plant and equipment	739	647
Minimum lease payments under operating leases in respect of office premises	4,019	4,154
Reversal of allowance for doubtful debts, net	(6,965)	(39)
Staff costs (including Directors' emoluments)		
Salaries, wages and other benefits	28,917	30,429
Retirement benefit scheme contributions	4,010	3,898
Share-based payment expense	8,301	–

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(<i>unaudited</i>)	(<i>unaudited</i>) (restated)
Current tax:		
Hong Kong Profits Tax	6,799	7,045
PRC Enterprise Income Tax (“PRC EIT”)	(779)	227
	<u>6,020</u>	<u>7,272</u>

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The two-tiered profits tax rates regime will be applicable to the subsidiaries in HK for the six months ended 30 June 2018.

The applicable tax rate of the subsidiaries in HK is 16.5% for the six months ended 30 June 2017.

Under the Law of the PRC on Enterprise Income tax and Implementation Regulation of The Enterprise Income Tax Law, the tax rate of entities established in the PRC is 25% during the six months ended 30 June 2018 and 2017. 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, it is entitled to a reduced tax rate of 15% (2017: 15%) for PRC EIT during the six months ended 30 June 2018. Accordingly, the PRC EIT is calculated at 15% (2017: 15%) on the assessable profit of SMC Technology SZ for the six months ended 30 June 2018.

6. DIVIDENDS

During the current interim period, a final dividend of HK3 cents per share in respect of the year ended 31 December 2017 (2017: HK\$Nil per share in respect of the year ended 31 December 2016) 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\$15,000,000 (2017: HK\$Nil). Subsequent to the end of the current interim period, the Directors of the Company have determined that an interim dividend of HK2 cents (2017: HK2 cents) per share in respect of the six months ended 30 June 2018 will be paid to the shareholders whose names appeared on the register of members as at the close of business on Friday, 14 September 2018.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
		(restated)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	37,059	42,399
	37,059	42,399
	Six months ended 30 June	
	2018	2017
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	500,000,000	500,000,000
Effect of dilutive potential ordinary shares: awarded shares of the Company	2,711,331	–
	2,711,331	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	502,711,331	500,000,000
	502,711,331	500,000,000

No diluted earnings per share is presented for the six months ended 30 June 2017 as there were no potential ordinary shares in issue.

8. TRADE AND BILLS RECEIVABLES

	30 June 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (audited) (restated)
Trade receivables	486,444	338,247
Less: Allowance for doubtful debts	(20,259)	(23,243)
Net	466,185	315,004
Bills receivables	1,597	4,022
	467,782	319,026

The Group entered into factoring agreements with certain banks so as to obtain bank advances. As at 30 June 2018, trade receivables of approximately HK\$276,062,000 (31 December 2017: HK\$391,427,000) had been transferred to banks in accordance with the relevant non-recourse factoring agreements. Relevant trade receivables were derecognised as the Directors of the Company are of the opinion that the substantial risks and rewards associated with the trade receivables have been transferred and therefore qualified for derecognition.

The Group allows credit period of 0 to 120 days (31 December 2017: 0 to 120 days) to its customers. The aged analysis of the Group's trade and bills receivables, net of allowance, based on invoice date at the end of each reporting period are as follows:

	30 June 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (audited) (restated)
0–30 days	219,567	176,658
31–60 days	72,876	57,974
61–90 days	74,307	40,455
91–120 days	38,325	3,406
121–180 days	3,406	115
Over 180 days	59,301	40,418
	467,782	319,026

9. TRADE AND BILLS PAYABLES

	30 June 2018 <i>HK\$'000</i> (unaudited)	31 December 2017 <i>HK\$'000</i> (audited) (restated)
Trade payables	394,535	365,879
Bills payables	16,702	3,441
	<u>411,237</u>	<u>369,320</u>

The credit period on trade purchases is 0 to 60 days (31 December 2017: 0 to 60 days).

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

	30 June 2018 <i>HK\$'000</i> (unaudited)	31 December 2017 <i>HK\$'000</i> (audited) (restated)
0–30 days	282,246	284,396
31–60 days	123,631	84,904
61–90 days	4,330	1
Over 90 days	1,030	19
	<u>411,237</u>	<u>369,320</u>

10. AMOUNT DUE FROM A RELATED COMPANY

The amount is due from 芯智股份有限公司 which Mr. Tian Weidong is a shareholder of the related company and is of trade nature, unsecured, non-interest bearing with a credit period of 120 days. At 30 June 2018, the balance of HK\$6,000, HK\$928,000 and HK\$1,169,000 is aged between 31 to 60 days, 91 to 120 days and 121 to 180 days, respectively.

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK2 cents per share for the six months ended 30 June 2018 and is expected to be paid on or about Friday, 28 September 2018 to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 14 September 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 12 September 2018 to Friday, 14 September 2018, 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, 11 September 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2018, competition in the consumer market raged as usual, and international trade protectionism began to rise, imposing some adverse effects on the import and export of downstream customers. Operations of the Group maintained steady development, and provided the industry with a number of competitive technical solutions. The Group spared no effort to provide technical support and services and constantly optimized our operation and management to temporize with the ever-changing market. In the first half of the year, the Group actively promoted the development of new business areas and achieved some positive progress and results. Our business in the products such as projection products, security monitoring, optical communication, and intelligent Internet of Things (“IoT”) grew significantly, which lay a solid foundation for the Group's future development.

Smart media display

Driven by sports events, the global color TV market resumed growth in the first half of 2018. The sales of smart media display products of the Group in the first half of 2018 increased by 13% over the same period last year. In the face of intensified competition in the market, we, by right of our own strengths, adjusted strategies according to the market demands, and sought new business growth drivers in differentiated markets. The overall operation of the Group remained stable in the first half of 2018.

Intelligent broadcasting terminal

In the first half of 2018, the global competition in the set-top box market intensified. As affected by the trade protectionism, a certain blue-chip customer experienced substantial decrease in shipments in the first half of the year, which had affected the achievement of our performance goal of the intelligent broadcast terminal business. In summary, in the first half of 2018, the sales of intelligent broadcasting terminal products of the Group decreased by 28% as compared to the same period last year. MStar Semiconductor Inc., a supplier of the Group, remained at the forefront in the market in respect of set-top box chips.

Memory

In the first half of 2018, the prices of Nand flash memory (non-volatile memory technology) chips continued to fall, and the profit margin thereof narrowed. As the memory products play an important part in the semiconductor industry and have a huge development space in the future, our sales team was actively expanding into new markets in this field, and recorded an increase of 48% in sales revenue as compared with the same period last year.

Security monitoring

Monitoring equipments and monitoring systems are rapidly developing towards digitalization, networking and intelligence, and play an increasingly important role in the industries of urban construction, finance, insurance, petroleum and petrochemical, power and communications. The product line of the security division of the Group was centered around the core IC and image sensor of the high-definition (“**HD**”) cameras. Our products maintained the leading position in the industry. The business volume multiplied in the first half of the year and the sales exceeded HK\$47 million.

Optical communication

In the first half of 2018, the overall demands in the traditional optical communication market remained stable. Attention was still fixed on the demands for FTTx, wireless 4G and data centers. The increase mainly came from the demands for 100G high-speed optical transmission and 400G ultra-high-speed optical transmission data centers in the market. In the first half of the year, the Group recorded a significant increase of 135% in the sales of optical communication products as compared with the same period last year.

Other areas

In the first half of 2018, the Group specified three development directions of authorized distribution, technology value-added and independent distribution integrating e-commerce platforms. So far, authorized distribution maintained smooth operation in the traditional business sections and has made substantial breakthroughs in the cultivation and expansion of new business. In terms of technology value-added, we have also made progress in smart projection, commercial display, smart locks, IoT, software product research and development and so on. In the first half of the year, we partnered NXP Semiconductors N.V. (“NXP”), the largest automotive electronics and artificial intelligence IoT chip company worldwide, and became its officially authorized IDH (Independent Design House) solution company. We managed to achieve the mass production of solutions for smart locks based on various leading secure connection technologies of NXP and thereby debuted in the potential pervasive market of smart locks. In addition, we also achieved cooperation with several important customers in terms of smart projection solution and set up programs in relation thereto, and expected to seek mass production and sales in the market successively in the second half of the year. As for the construction of the e-commerce trading platform, the Group will integrate the expansion of independent distribution business into the existing “SMC Cloud” (芯智雲城) platform and introduce more qualified suppliers, and supplement the types and purchasing channels of electronic components so as to provide customers with more comprehensive supply chain services, which will complement the existing authorized distribution and technology value-added systems and create new business support for the Group.

OUTLOOK

With regard to smart media display, thanks to the driving force from sports games, the sale of color TVs enjoyed an overall rally this year and is expected to continue the current growth momentum in the second half of the year, which is the traditional boom season. In particular, new technologies such as 4K ultra HD, large screen, high dynamic range image, OLED and quantum dot will continue to attract the attention of the consumers. Demands for commercial displays and laser projection machines (e.g. advertisement players) will carry on the growth and thus generate new increment for the business of the Group. From the long-term perspective, smart media display market will embrace more growth potential in the future in the wake of the technology upgrade and large screen trend of products, let alone the tremendous gross content.

In terms of intelligent broadcasting terminal, with the popularity of 4K ultra HD television, 4K broadcasting terminal also sees development opportunities. In January 2018, the Ministry of Industry and Information Technology proposed to establish China 4K Ultra HD Video Industry Alliance, prepare the Action Plan on Development of Ultra-high Definition Video Industry (2018–2022) (《超高清視頻產業發展行動計劃(2018–2022)》), and support the launch of demonstration projects in Beijing and Guangdong. In the Outlook of Digital TV and Video Development for 2016–2021 (《2016–2021年數字電視與視頻發展展望》), Juniper Research points out that, as at the end of 2016, the number of users of 4K ultra HD set-top boxes in the world was 2.3 million, which will increase significantly to 189 million by the end of 2021. Benefiting from the fact that more internet content providers and telecom network operators enter the market, 4K smart set-top boxes will have greater improvements in terms of content, traffic and technology. We believe that, with the upgrading of products, set-top boxes and their integrated circuits as well as other electronic components will continue to grow in the coming years. The Group will cooperate with major domestic set-top box manufacturers to continuously increase our share in the intelligent broadcasting terminal market.

In the field of security monitoring, as a core component of the construction of “Safe City”, video monitoring is an important guarantee for urban public security. With the gradual implementation of artificial intelligence in the security industry, the product form is becoming more and more stable, and the artificial intelligence system will conduct extraction from video data in a real-time way and accurately identify many features, setting higher requirements for the definition and image quality of the monitoring cameras. With the popularization of technologies including 4K and H.265, the future video definition and video coding efficiency will continue to improve. According to the data compiled by the Prospective Industry Research Institute, the size of China’s video monitoring market will reach Renminbi 300 billion in 2021, representing a compound annual growth rate of 12–15%. In the first half of 2018, the Group’s sales in the security monitoring field increased by several times as compared with the same period of 2017. In the second half of the year, we will continue to expand our sales team and market coverage of security monitoring products to increase our market share.

As to the optical communication segment, in the second half of the year, while maintaining our current market share, the Group will proactively make arrangements on exploration of market demands for the next generation products, advance the development and marketing of the ancillary products of current data center as well as seeking new market opportunities arising from the 5G era. The first version of 5G standard was successfully established in June 2018, which meant the commencement of deployment for commercial usage of 5G infrastructure. Biddings for relevant facilities will be rolled out in succession in the second half of 2018 and commercialization is expected to be formally achieved in 2020. The construction of optical communication network, upon which 5G is based, will become the new market hotspot and bring about increment of demands in the forthcoming years. The Group will continue to explore the optical communication market in a proactive manner and capitalize on opportunities to improve our market share.

Looking into the second half of 2018, in view of the changing international and domestic situations, market development will brim with competition and variables. Notwithstanding, the Group will, leveraging authorized distribution and technical value-added services, continue to bring more competitive solutions to the clients, provide professional technical value-added services and energetically exploit new product lines as well as taking initiative to expand the market share of our existing product lines. The Group will experiment on an independent distribution business mode that integrates the e-commerce platform and seek opportunities to expand the Indian and Southeast Asian markets so as to identify the next target with fast growth potential for the Group. In the meantime, we will exert strict control over costs, intensify efforts on capital operation and continue to reward the shareholders of the Company (the “**Shareholders**”) with generous returns and long-term value.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2018, the Group’s revenue amounted to HK\$2,264.5 million, representing a decrease of HK\$12.6 million (0.6%) as compared with the corresponding period in 2017 (HK\$2,277.2 million). Smart media display product is always one of the major products of the Group, which accounted for more than 40% of the Group’s total revenue. The slight decrease in the revenue level was mainly due to the combination effect of the increase in the sales of smart media display products of approximately HK\$127.4 million as well as the decrease in the sales of our intelligent broadcasting terminal product of approximately HK\$153.0 million. During the first half of 2018, the Group had been actively involved in the launch of new products such as the introduction of smart door lock and smart projection, etc. The management expects these products will bring in a remarkable contribution to the Group’s future economic inflow.

Gross profit

Our gross profit for the six months ended 30 June 2018 decreased by HK\$6.1 million to HK\$100.8 million as compared with the corresponding period in 2017 (HK\$106.9 million). Our gross profit margin decreased by 0.2% to 4.5% for the six months ended 30 June 2018 (six months ended 30 June 2017: 4.7%). The decrease in profit margin was mainly dominated by the provision of allowance for inventory of approximately HK\$4.7 million during the current period as compared to the six months ended 30 June 2017 (HK\$0.3 million).

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 2018, research and development expenses amounted to HK\$11.3 million, increased by 15.3% as compared with the six months ended 30 June 2017 (HK\$9.8 million). The increase was due to the sustainable needs of the technical support from our customers especially after the launch of certain new products as well as the increase in the average salaries cost to the technicians (including the share-based payment expenses of HK\$1.0 million (six months ended 30 June 2017: HK\$Nil)) during the period.

Administrative, selling and distribution expenses

Administrative, selling and distribution expenses aggregated to HK\$45.8 million for the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$42.9 million), which accounted for 2.0% of the revenue for the six months ended 30 June 2018 as compared with 1.9% over the corresponding period in 2017. The net increase of HK\$2.9 million was mainly due to the launch of share award scheme in the current period which is partially offset by the decrease of certain operating expenses as a result of the strict cost control policy implemented by the Group. The Group recognised an approximately of HK\$7.3 million share-based payment expenses in the first half of 2018 (six months ended 30 June 2017: Nil).

Interest expense on bank borrowings

The Group's interest expense on bank borrowings for the six months ended 30 June 2018 amounted to HK\$10.2 million (six months ended 30 June 2017: HK\$14.1 million). The Group has entered into various financing arrangements with some of the principal bankers. The borrowing cost declined compared to the prior period which was due to the decreased utilisation of letter of credit and import loan in the current year as the Group's liquidity position continued to improve after the global offerings.

Profit for the period

For the six months ended 30 June 2018, the Group's profits amounted to HK\$37.0 million, representing a decrease of HK\$5.4 million as compared to HK\$42.4 million for the corresponding period in 2017, a drop of 12.8%. The net profit margin for the six months ended 30 June 2018 was approximately 1.6%, which represents a decrease of 0.3% as compared with the corresponding period in 2017 (2017: 1.9%).

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 2018 reached HK\$37.1 million, representing a decrease of 12.6% as compared with the corresponding period in 2017.

Use of proceeds from the global offering

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

The Group has utilised approximately HK\$70.6 million of the net proceeds as at 30 June 2018. The unutilised net proceeds have been placed as deposits with banks.

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 2018, the Group maintained bank balances and cash of HK\$147.9 million (31 December 2017: HK\$177.3 million).

As at 30 June 2018, the outstanding bank borrowings of the Group was HK\$92.9 million (31 December 2017: HK\$2.1 million). The Group's gearing ratio, based on the interest-bearing borrowings and total equity, increased from 0.4% as at 31 December 2017 to 17.3% as at 30 June 2018 as a result of the increased bank borrowings to meet the operation needs.

As at 30 June 2018, the Group had current assets of HK\$981.7 million (31 December 2017: HK\$848.7 million) and current liabilities of HK\$595.3 million (31 December 2017: HK\$463.2 million). The current ratio was 1.6 times as at 30 June 2018 (31 December 2017: 1.8 times).

The Group's debtor's turnover period was 31 days for the six months ended 30 June 2018 as compared to 32 days for the corresponding period in 2017. Since the Group has entered into non-recourse factoring agreements with banks in respect of the Group's trade receivables with certain designated customers, the debtors' turnover period improved as a result of such financing arrangement and has been maintaining at a stable level.

The creditors' turnover period was 33 days for the six months ended 30 June 2018 as compared with 39 days for the corresponding period in 2017. Creditors' turnover period improved which was due to the more timely repayment of the amounts due to our suppliers during the current period.

The inventories' turnover period was 22 days for the six months ended 30 June 2018 as compared with 21 days for the six months ended 30 June 2017. Inventory control was always one of the primary tasks of the Group's management team to maintain the liquidity and healthy financial position of the Group. Inventories' turnover period remained relatively stable in both periods.

Foreign currency exposure

The Group's transactions are principally denominated in US\$ 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\$0.2 million during the six months ended 30 June 2018 (six months ended 30 June 2017: net foreign exchange gain of approximately HK\$1.7 million). As the date of this report, the Group has not adopted any foreign currency hedging policy. However, the Group will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the exposures become significant.

Pledge of assets

As at 30 June 2018, available-for-sale investments reclassified as debt instruments at fair value through profit or loss and other comprehensive income amounted to HK\$59.1 million, (31 December 2017: HK\$55.2 million), payment for life insurance reclassified as financial assets at fair value through profit or loss amounted to HK\$63.1 million, (31 December 2017: included in deposits, prepayments and other receivables amounted to HK\$65.4 million) and bank deposits amounted to HK\$63.6 million (31 December 2017: HK\$69.5 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 2018 and 31 December 2017.

Significant investment held

Save for the debt instruments at fair value through profit or loss and other comprehensive income as disclosed above, the Group did not hold any significant investments during the six months ended 30 June 2018.

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 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2018.

EVENTS AFTER THE INTERIM PERIOD ENDED 30 JUNE 2018

In July 2018, the Group entered into a joint venture agreement with DTDS Technology Pte. Ltd in respect of, among others, the formation of a joint venture company in HK which the Group will control and hold 70% equity interest. The joint venture company will be engaged in the provision of electronic components trading related services in the Southeast Asia and Indian markets. Details of the transaction are set out in the announcement of the Company dated 20 July 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Except for code provision A.2.1 as disclosed below in this announcement, the Company has complied with the applicable code provisions of the CG Code during the six months ended 30 June 2018. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of the Directors, and all Directors confirmed that they had fully complied with the Model Code for the six months ended 30 June 2018.

AUDIT COMMITTEE

The Company has established an audit committee, comprising three independent non- executive Directors, namely Mr. Zheng Gang, Mr. Tang Ming Je and Mr. Wong Hok Leung. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide comment and advice to the Board. The audit committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2018 (“**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 the accounting policies adopted by the Group, internal controls and financial reporting matters of the Group.

PUBLICATION OF INTERIM RESULTS

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.smart-core.com.hk). The interim report of the Company for the six months ended 30 June 2018 containing all the information required by the Listing Rules and other applicable laws and regulations will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 24 August 2018

As at the date of this announcement, the Board comprises Mr. Tian Weidong (chairman), Mr. Wong Tsz Leung, Mr. Liu Hongbing and Mr. Xie Yi as executive Directors, Mr. Zheng Gang, Mr. Tang Ming Je and Mr. Wong Hok Leung as independent non-executive Directors.