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ST INTERNATIONAL HOLDINGS COMPANY LIMITED

智紡國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8521)

2023 FINAL RESULTS ANNOUNCEMENT

The board (“**Board**”) of directors (“**Directors**”) of ST International Holdings Company Limited (“**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the audited results of the Group for the year ended 31 December 2023. This announcement, containing the full text of the 2023 annual report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of final results

On behalf of the Board

ST International Holdings Company Limited

Wong Kai Hung Kelvin

Chairman and Executive Director

Hong Kong, 28 March 2024

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Wong Kai Hung Kelvin, Mr. Li Jian and Mr. Chen Simon Guomin; one non-executive Director, namely, Mr. Hung Yuk Miu; and three independent non-executive Directors, namely Mr. Ng Wing Heng Henry, Mr. Fong Kin Tat and Dr. Chan Yee Wah.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Listed Company Information” page of the Stock Exchange’s website at www.hkexnews.hk for at least seven days after the date of publication and on the Company’s website at www.smart-team.cn.

ST International Holdings Company Limited 智紡國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8521)

Annual Report
2023

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

*This report, for which the directors (the “**Directors**”) of ST International Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company.*

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Kai Hung Kelvin (*Chairman*)
Mr. Li Jian (Appointed on 28 August 2023)
Mr. Chen Simon Guomin
(Appointed on 14 November 2023)
Mr. Xi Bin (Resigned on 5 December 2023)

Non-executive Director

Mr. Hung Yuk Miu

Independent non-executive Directors

Mr. Sze Irons, *BBS JP* (Resigned on 5 December 2023)
Mr. Fong Kin Tat
Mr. Ng Wing Heng Henry
Dr. Chan Yee Wah (Appointed on 5 December 2023)

AUDIT COMMITTEE

Mr. Ng Wing Heng Henry (*Chairman*)
Mr. Fong Kin Tat
Mr. Sze Irons, *BBS JP* (Resigned on 5 December 2023)
Dr. Chan Yee Wah (Appointed on 5 December 2023)

REMUNERATION COMMITTEE

Mr. Fong Kin Tat (*Chairman*)
Mr. Wong Kai Hung Kelvin
Mr. Ng Wing Heng Henry

NOMINATION COMMITTEE

Dr. Chan Yee Wah (*Chairwoman*)
(Appointed on 5 December 2023)
Mr. Sze Irons, *BBS JP* (Resigned on 5 December 2023)
Mr. Wong Kai Hung Kelvin
Mr. Ng Wing Heng Henry

COMPLIANCE OFFICER

Mr. Wong Kai Hung Kelvin

COMPANY SECRETARY

Mr. Sin Kin Hong, Edward, CPA

AUTHORISED REPRESENTATIVES

Mr. Wong Kai Hung Kelvin
Mr. Sin Kin Hong, Edward, CPA

REGISTERED OFFICE

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Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wan Chai, Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
17/F, Far East Finance Centre,
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AUDITOR

SHINEWING (HK) CPA Limited
Certified Public Accountants
17/F, Chubb Tower,
Windsor House,
311 Gloucester Road,
Hong Kong

LEGAL ADVISOR

LCH Lawyers LLP
Room 702,
Admiralty Centre Tower One,
18 Harcourt Road,
Admiralty,
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
HSBC Main Building,
1 Queen's Road Central,
Hong Kong

Bank of Dongguan
No. 101, Block 1, Hyde Plaza,
No. 200, Hongfu Road,
Nancheng District, Dongguan City,
Guangdong Province, PRC

Bank of China
No. 72, Guantai Road,
Nancheng District, Dongguan City,
Guangdong Province, PRC

China Construction Bank
Shop A011-A015,
Jiangnan Yazhu, Block H1,
8 Jinfeng Road,
Nancheng District, Dongguan City,
Guangdong Province, PRC

COMPANY'S WEBSITE

www.smart-team.cn

STOCK CODE

8521

Financial Summary

For the five years ended 31 December 2019, 2020, 2021, 2022 and 2023

| | 2023 HK\$'000 | 2022 HK\$'000 | 2021 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|------------------|------------------|------------------|
| Revenue | 109,968 | 101,100 | 122,786 | 120,683 | 191,180 |
| Cost of sales | (83,792) | (83,447) | (88,094) | (92,205) | (129,912) |
| Gross profit | 26,176 | 17,653 | 34,692 | 28,478 | 61,268 |
| Other income | 2,379 | 2,864 | 3,793 | 2,415 | 1,836 |
| Selling and distribution expenses | (5,115) | (4,078) | (4,254) | (3,399) | (5,286) |
| Administrative and other expenses | (16,676) | (19,073) | (18,241) | (19,762) | (19,192) |
| Impairment loss on plant and machinery (Impairment loss)/reversal of impairment | – | (6,296) | – | – | – |
| loss on trade receivables | (1,589) | (29) | (46,333) | – | 57 |
| Finance costs | (1,464) | (1,412) | (1,762) | (616) | (338) |
| Profit/(loss) before tax | 3,711 | (10,371) | (32,105) | 7,116 | 38,345 |
| Income tax expenses | (1,509) | (654) | (398) | (1,005) | (3,353) |
| Profit/(loss) for the year | 2,202 | (11,025) | (32,503) | 6,111 | 34,992 |

| | 2023 HK\$'000 | 2022 HK\$'000 | 2021 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|
| ASSETS AND LIABILITIES | | | | | |
| Non-current assets | 20,540 | 21,526 | 33,043 | 33,974 | 30,717 |
| Current assets | 161,275 | 157,157 | 176,304 | 185,815 | 152,962 |
| Non-current liabilities | 5,154 | 5,152 | 525 | 1,647 | 820 |
| Current liabilities | 30,059 | 45,781 | 57,242 | 39,332 | 15,555 |
| Net assets | 146,602 | 127,750 | 151,580 | 178,810 | 167,304 |

| | 2023 HK\$'000 | 2022 HK\$'000 | 2021 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|------------------|------------------|------------------|
| CASH FLOWS | | | | | |
| Net cash generated from/(used in) operating activities | (2,758) | 9,815 | 30,775 | (28,751) | 14,161 |
| Net cash used in investing activities | (304) | (194) | (361) | (5,398) | (12,674) |
| Net cash (used in)/generated from financing activities | (1,213) | (5,473) | 18,864 | 14,799 | (6,126) |
| Net (decrease)/increase in cash and cash equivalents | (4,275) | 4,148 | 49,278 | (19,350) | (4,639) |
| Cash and cash equivalents at the beginning of the year | 84,758 | 89,740 | 38,134 | 55,155 | 61,026 |
| Effect of foreign exchange rate changes | 14 | (9,130) | 2,328 | 2,329 | (1,232) |
| Cash and cash equivalents at the end of the year | 80,497 | 84,758 | 89,740 | 38,134 | 55,155 |

Chairman Statement

Dear Shareholders,

On behalf of the board of directors (the “**Board**”) of the Company, I am pleased to present the audited consolidated financial statements of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2023 (“**FY2023**”).

With regards to our financial performance for FY2023 as compared with the year ended 31 December 2022 (“**FY2022**”), our revenue increased by HK\$8,868,000 or 8.8% from HK\$101,100,000 to HK\$109,968,000 and our gross profit margin increased from 17.5% to 23.8%. In FY2023, some of the major customers of the Group saw their business operations, and thus their demands for the Group’s products increased in FY2023. The increase in demand led to a significant recovery in revenue compared with the corresponding period in FY2022.

The Group recorded a net profit after tax of HK\$2,202,000 for FY2023 when compared with a net loss after tax of HK\$11,025,000 for FY2022 principally due to (i) the increase in revenue; (ii) the decrease in administrative and other expenses; and (iii) the absence of impairment loss on plant and equipment.

Looking ahead, due to global financial uncertainty and continual geopolitical instability, the road to recovery of the economy in the PRC will be uneven. However, the directors of the Company remain positive and noted that the PRC’s economy recovered steadily in the second half of 2023, reaching an annual GDP growth of 5.2% in 2023. The management of the Company will continue to strengthen the Group’s position in research and development, upgrade our standards of quality on new functional fabrics as well as expand our business into different market segments by strengthening the marketing and sales efforts.

In the long run, the Group is positioned to capture more business opportunities and steady long-term growth momentum of the functional fabrics market in the PRC by continuing to develop new functional fabrics and upgrading our standards of quality on the functional fabrics.

In the fourth quarter of 2023, the Company formed a new business unit to take advantage of our new executive directors’ expertise in mobile and online marketing in the Mainland China market, and the Group expects it will open up new avenues and take advantage of market trends.

Finally, on behalf of the Board, I would like to, once again, express my sincere gratitude to all business partners, customers and suppliers for their ongoing support, as well as our dedicated staff for their strong contributions throughout this challenging year.

Wong Kai Hung, Kelvin
Chairman

Hong Kong, 28 March 2024

Management Discussion and Analysis

BUSINESS REVIEW

The Group is principally engaged in the provision of functional knitted fabrics in the PRC. The products are primarily sold directly to (i) lingerie and apparel brand owners; (ii) sourcing agents; and (iii) garment manufacturers. The Group continues to design functional knitted fabrics through its product innovation capabilities, source its raw materials comprising primarily synthetic fibres and yarns and engage third party factories to carry out production processes comprising yarn spinning, knitting and dyeing, for its direct sales of functional knitted fabrics to the customers. With a view to diversifying the Group's source of revenue and creating cross-selling opportunity, the Group also engages in the sales of apparel to its customers which are lingerie and apparel brand owners.

With COVID-19's influence fading in FY2023, and China opening up in full since February 2023, the Group saw strong demand recovery compared to FY2022, which led to an 8.8% increase in revenue compared to the corresponding period in FY2022.

Hence, the management of the Group expects the demand for the Group's products will rebound and the recovery will become significant in the second half of 2023.

The Group will closely monitor the market situation and to evaluate the Group's operation and financial performance. The Group will make adjustments to the Group's business plan and operations accordingly to capture the momentum of economic recovery in the PRC.

Firstly, the Group will continue to devote resources towards research and development of functional knitted fabrics as well as dyeing methodology to strengthen its competitiveness.

Secondly, the Group will improve the Group's market position in the PRC by improving its product offering and expanding into different market segments by strengthening the Group's marketing efforts.

Thirdly, the Group will also retain right talents to support the Group's future growth with a view to bringing a better return to the shareholders of the Company in long term.

Lastly, with the newly formed business unit centred around cloud computing and internet traffic services, and the prevailing market conditions, the business unit is expected to capitalise on high growth in this sector going forward in the mid to long term.

Management Discussion and Analysis

Revenue

The following table sets forth an analysis of our revenue by products during FY2023 and FY2022.

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Sales of functional knitted fabrics | 82,314 | 81,981 |
| Sales of apparel | 15,430 | 13,126 |
| Sales of yarns | 12,071 | 5,993 |
| Cloud-based computing and internet traffic services | 153 | – |
| | 109,968 | 101,100 |

The Group's revenue increased by HK\$8,868,000 or 8.8%, from HK\$101,100,000 for FY2022 to HK\$109,968,000 for FY2023. The increase was mainly due to the significant increase in revenue from the sales of yarns as a result of the increase in sales orders from some of the major customers when compared with the corresponding period in 2022.

Gross profit and gross profit margin

The gross profit increased by HK\$8,523,000 or 48.3% from HK\$17,653,000 for FY2022 to HK\$26,176,000 for FY2023. The gross profit margin increased by approximately 6 percentage points from approximately 17.5% for the year ended 31 December 2022 to approximately 23.8% for the year ended 31 December 2023. The increase in gross profit margin was mainly due to increase in sales.

Other income

Other income decreased by HK\$485,000 or 16.9% from HK\$2,864,000 for FY2022 to HK\$2,379,000 for FY2023.

Other income mainly comprises (i) bank interest income; (ii) government grants; (iii) rental income; (iv) sundry income and (v) net exchange gain only for FY2023. The decrease in other income for FY2023 was mainly due to the decrease in sundry income by HK\$299,000, the decrease in government grants or subsidies from PRC government authority by HK\$144,000 and the decrease in rental income from leasing out machinery received by a subsidiary of the Company in the PRC by HK\$53,000.

Management Discussion and Analysis

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately HK\$1,037,000, or 25.4%, from approximately HK\$4,078,000 for FY2022 to approximately HK\$5,115,000 for FY2023.

The Group has incurred greater exhibition expenses because of the increase in exhibition events with the recovery of market demands. The Group has incurred an increase in travelling expenses due to more frequent travels after travel restrictions were lifted in the post-pandemic era.

Administrative and other expenses

The Group's administrative and other expenses decreased by HK\$2,397,000, or 12.6%, from HK\$19,073,000 for FY2022 to HK\$16,676,000 for FY2023. The decrease was mainly caused by (i) a decrease in salaries and wages of staff by HK\$1,750,000 in the post-pandemic era; and (ii) a decrease in depreciation by HK\$455,000. Such a decrease is partially offset by the increase in business entertainment by HK\$181,000, staff Mandatory Provident Fund payments by HK\$268,000, and directors' remuneration by HK\$355,000.

Impairment loss on plant and equipment

After recognising an impairment loss on plant and equipment of approximately HK\$6,296,000 in FY2022, no further impairment loss on plant and equipment was recognised in FY2023. As at 31 December 2023, the net book value of the leased machineries was approximately HK\$8,252,000.

Impairment loss on trade receivables

The Group's impairment loss on trade receivables increased by approximately HK\$1,560,000 or 5379.3% from HK\$29,000 for FY2022 to HK\$1,589,000 for FY2023, due to the recognition of lifetime ECL for trade receivables based on individually significant customer or the ageing of customers by due date, the expected loss rate of trade receivables in FY2023 is much higher than FY2022.

Finance costs

Our finance costs increased by HK\$52,000 or 3.7% from HK\$1,412,000 for FY2022 to HK\$1,464,000 for FY2023 due to an increase in interest on bank borrowings during FY2023, compared with FY2022. The bank borrowings and bank overdraft were HK\$19,463,000 as at 31 December 2023 (HK\$37,617,000 as at 31 December 2022).

Taxation

Our income tax expenses increased by HK\$855,000 or 130.7% from HK\$654,000 for FY2022 to HK\$1,509,000 for FY2023. Such increase is mainly attributed to the increase in PRC Enterprise Income Tax in 2023, doubling from HK\$899,000 for FY2022 to HK\$1,912,000 for FY2023.

Management Discussion and Analysis

Profit for the year attributable to owners of the Company

As a result of the foregoing, the profit attributable to owners of the Company for FY2023 was HK\$2,202,000 while the loss for FY2022 attributable to owners of the Company was HK\$11,025,000.

Cash flows

The net cash used in operating activities during FY2023 was about HK\$2,758,000 while the net cash generated from operating activities during FY2022 was about HK\$9,815,000. The change of cash used in or generated from operating activities was mainly due to the significant increase in trade receivables when compared with FY2022.

The net cash used in investing activities in FY2023 was about HK\$304,000 while the net cash used in investing activities in FY2022 was about HK\$194,000. The increase was mainly due to the increase in the acquisition of the plant and equipment.

The net cash used in financing activities was HK\$1,213,000 in FY2023 while the net cash used in financing activities in FY2022 was HK\$5,473,000. The decrease was mainly due to proceeds from bank borrowing being reduced significantly; partially offset by (i) decrease in repayment of bank borrowings and (ii) proceeds from the issuance of shares.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We financed our operation mainly through cash generated from our operating activities and bank borrowings. As at 31 December 2023 and 2022, we had cash and cash equivalents of HK\$80,497,000 and HK\$84,758,000 respectively.

As at 31 December 2023, the Group had HK\$17,829,000 of outstanding bank borrowing and other loans and HK\$2,994,000 of bank overdraft (2022: HK\$35,318,000 of outstanding bank borrowing and HK\$2,299,000 of bank overdraft). As at 31 December 2023, the Group's borrowings were denominated in Renminbi ("**RMB**").

The Group's gearing ratio, which is calculated based on the total debt (defined as the sum of bank borrowings and other loans and overdrafts) as at the respective year end divided by total equity as at the respective year end were 14.2% and 29.4% as at 31 December 2023 and 2022 respectively.

Management Discussion and Analysis

PLACING OF NEW SHARES UNDER GENERAL MANDATE (“OCT 2023 PLACING”)

On 11 October 2023, the Company and Emperor Securities Limited (“**Placing Agent**”) entered into a placing agreement (“**Placing Agreement**”) pursuant to which the Company had conditionally agreed to place through the Placing Agent, on a best effort basis, up to 96,000,000 new ordinary shares (“**Shares**”) of the Company (“**Placing Shares**”, and each a “**Placing Share**”), to not less than six Placees who and whose ultimate beneficial owners are third parties independent of the Company and the connected persons (as defined under the GEM Listing Rules) of the Company at a price of HK\$0.185 per Placing Share, representing a discount of approximately 2.63% to the closing price of HK\$0.190 per Share as quoted on the Stock Exchange on 11 October 2023 (being the date of the entering into of the Placing Agreement). The Placing Shares were to be allotted and issued pursuant to the general mandate granted by Shareholders at the annual general meeting of the Company held on 25 May 2023.

The Directors were of the view that the Oct 2023 Placing could raise working capital of the Group for its growth and development and meeting future obligations as well as improve the financial position of the Group. The Oct 2023 Placing also offered a good opportunity to diversify the shareholders’ base and the capital base of the Company. As such, the Directors considered that the Oct 2023 Placing was in the interests of the Company and the Shareholders as a whole.

Completion of the Oct 2023 Placing took place on 25 October 2023. 96,000,000 Placing Shares, which carried aggregate nominal value of HK\$960,000, were placed to not less than six placees at the placing price of HK\$0.185 per Placing Share. The gross proceeds from the Oct 2023 Placing were approximately HK\$17.76 million and the net proceeds were approximately HK\$17.40 million (after deduction of commission and other expenses of the Oct 2023 Placing). On such basis, the net issue price per Placing Share was approximately HK\$0.181.

For details of the Oct 2023 Placing, please refer to the announcements of the Company dated 11 October 2023 and 25 October 2023.

USE OF PROCEEDS

Details of the use of the proceeds from the Oct 2023 Placing are set out below:

| | Amount of proceeds planned for intended use | Actual use of proceeds as at 31 December 2023 | Balance available as at 31 December 2023 | Expected timeline for full utilisation of the remaining net proceeds |
|--|--|---|--|---|
| Intended use of proceeds | HK\$ (in million) | HK\$ (in million) | HK\$ (in million) | |
| Replenishment of the working capital of the Company to support its business operations | 17.40 | – | 17.40 | expected to be progressively utilised in accordance with the intended use over the course of 2024 |

CAPITAL STRUCTURE

As at 31 December 2023, the capital structure of the Company comprised issued share capital and reserves.

COMMITMENTS

As at 31 December 2023 and 2022, the Group did not have any capital commitment.

Management Discussion and Analysis

SEGMENT INFORMATION

Details of segment information of the Group are set out in note 6 to the consolidated financial statements.

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investment during FY2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

There was no material acquisition and disposal of subsidiaries and assets by the Group during FY2023. As of the date of this report, the Group did not have any major future investment plans.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during FY2023.

CONTINGENT LIABILITIES

As at 31 December 2023, the Group has no material contingent liabilities.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Directors are aware that the Group is exposed to various types of principal risks and uncertainties as discussed below.

Foreign Exchange Risk

The Group's reporting currency is Hong Kong dollar and most of the business transactions are denominated in other currencies including RMB and US Dollar ("USD"). Hence, exchange rate fluctuation can affect the profit margin of the Group. The foreign exchange gains or losses of the Group primarily arise from settlement of trade payables denominated in USD and receipt of our trade receivables denominated in RMB and USD. However, the Group's principal business is located in the PRC, and its major transactions are conducted in RMB. The Group considers the risk exposure of the foreign exchange to be insignificant between HK\$, USD, and RMB. During FY 2023, the Group did not use any hedging contracts to engage in speculative activities. However, the Group will closely monitor the foreign currency risk exposure and take necessary measures to minimise the potential foreign exchange risks.

Credit Risk

The Group is subject to credit risks of our customers and our liquidity can be affected by late settlement of our customers. If our customers fail to settle our trade and bill receivables in full or timely within their respective credit period, the Group may incur impairment losses and therefore can adversely affect the financial performance and position. Our senior management manages the credit risks by assessing the credit limits and credit terms granted to customers under the internal control system and works with sales and finance departments to monitor closely the financial health and settlement status of our customers.

Management Discussion and Analysis

Policy Risk

Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic, and social factors may also lead to further adjustments to the reform measures. This refining and adjustment process may materially impact our business, financial condition, results of operations, and prospects. It might result in an upward adjustment of the production cost. Our management team pays attention to news about economic reforms trends to adopt preventive actions in advance to cope with the changes.

Competition Risk

The functional knitted fabrics market in the PRC is fragmented. Our Group faces intense competition, in terms of pricing, product quality, product innovation, product diversity, research and development and cost efficiency, from existing players and new entrants based in the PRC and other countries. The Group believes that the strong product innovation capabilities on functional knitted fabrics and stringent quality assurance and control measures for product quality will continuously strengthen our competitive advantages in the market.

ESG Compliance Risk

With the rising awareness of environmental, social, and governance (“ESG”) issues, most of the Group’s customers requested the Group to provide written confirmation of compliance with several environmental and social requirements. Accordingly, the Group needs to devote more effort and resources to ensure the Group’s compliance with the relevant laws or regulations and customers’ specified ESG requirements in spite of potential incurrence of extra costs to comply with the increasingly stringent environmental regulatory requirements.

The Group has transferred the compliance risk to suppliers or contractors by requesting them to comply with the relevant environmental laws or regulations. The Group have conducted background search and annual evaluation of the performance of the suppliers or contractors to minimise the potential non-compliance risks. The Group will continue to conduct mitigation measures to rectify any non-compliance.

CHARGES ON GROUP’S ASSETS

As at 31 December 2023, the Group had HK\$16,469,000 bank borrowings secured by personal guarantee provided by Mr. Xi Bin, an executive Director of the Company until his resignation on 5 December 2023 and his spouse (31 December 2022: HK\$35,318,000). During FY2023, the Group’s bank facilities were secured by the pledged bank deposits as set out in note 20 to the consolidated financial statements.

INFORMATION ON EMPLOYEES

As at 31 December 2023, the Group had 66 employees (31 December 2022: 63) and most of them were working in the Dongguan headquarters. We incurred staff costs inclusive of performance related bonus, other bonus and directors’ emoluments in the aggregate of HK\$14,068,000 and HK\$15,691,000 for FY2023 and FY2022, respectively. We regularly review the performance of our employees and make reference to such performance reviews in our salary review and promotional appraisal in order to attract and retain talented employees. For our sales staff, we offer a remuneration package comprising basic salary and performance-based bonus.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Kai Hung Kelvin (黃繼雄), aged 48, founded our Group in October 2011. He was appointed as a Director on 21 February 2017 and became the chairman of our Board and executive Director on 1 April 2017. Mr. Wong is responsible for the overall business strategies, planning, management and operational development of our Group. Mr. Wong is also a director of various subsidiaries of the Company.

Mr. Wong has over 22 years of experience in business administration. From July 1999 to March 2004, Mr. Wong was the general manager of Leahander Group Limited (利興強集團有限公司), an investment holding company, where he was responsible for managing staff, and establishing and accomplishing business objectives. From January 2002 to January 2016, Mr. Wong worked in K&T Investments Limited, a company engaging in manufacturing and distribution of knitted fabrics and an investment holding company, with his last position as the general manager, responsible for managing staff, and establishing and accomplishing business objectives.

Mr. Wong graduated from the University of Southern California in the United States with a Bachelor of Science (business administration) (major in science (business administration) and minor in architecture) in May 1999. Mr. Wong is the 2022/2023 executive committee members of Hong Kong Young Industrialists Council (香港青年工業家協會) and the 42nd Executive Committee Members of the Chinese Manufacturers' Association of Hong Kong (香港中華廠商聯合會). Mr. Wong was an executive member of the 10th Executive Committee of The Y. Elites Association (香港菁英會). In October 2013, he was awarded the honorary citizenship of Jiangmen of Guangdong Province (廣東省江門市榮譽市民). In 2020, he was awarded the Young Industrialist Awards of Hong Kong (香港青年工業家獎).

Mr. Li Jian (李鍵), aged 44, was appointed as an executive Director on 28 August 2023. He is responsible for developing new strategies and competencies. Mr. Li is also a director of various subsidiaries of the Company.

Mr. Li has many years' experience in computer software, communications and Internet media industries. He mainly engaged in research, development and manufacturing of mobile terminal products and Internet marketing and advertising. Mr. Li received his Associate Degree of Computer Science from the Department of Computer Science of Tianjin University of Technology and Education in 2003.

Since 2015, Mr. Li has participated in the establishment of Beijing Jiangzhi Information Technology Co. Ltd. (a listed company on the National Equities Exchange and Quotations, Stock Code: 430443), and as a shareholder of the company which is mainly engaged in Internet social media marketing, Internet advertising and other businesses.

Biographical Details of Directors and Senior Management

Mr. Chen Simon Guomin (陳國敏), aged 57, was appointed as an executive Director on 14 November 2023. He is responsible for identifying suitable investors to strategic partnerships for the Group. He also has extensive experience in both the banking and regulatory spheres, and is responsible for overseeing those areas for the Group.

Mr. Chen obtained a Bachelor of Engineering in Management Information Systems from the Tsinghua University, the People's Republic of China ("PRC") in July 1990 and a Master of Arts and Economics from Simon Fraser University, Canada in October 1993. He also obtained a Master of Business Administration degree from The University of British Columbia, Canada in May 1996.

Mr. Chen has over 30 years of experience in global capital markets and investment banking. Mr. Chen has successively held senior management positions at HSBC and Lehman Brothers for their respective investment banking business. Mr. Chen has helped many well-known companies in their listings, fundraisings and mergers and acquisitions, and advised on their corporate development strategies. While acting as the Chief Representative of HSBC's Beijing Representative Office Investment Bank in the PRC from 1999 to 2001, Mr. Chen helped implement HSBC's investment and development strategies in the PRC. Further, Mr. Chen was involved in the EU's China WTO Financial Industry Advisory Committee. In recent years, Mr. Chen has engaged in consulting and investment activities in internet big data application projects.

NON-EXECUTIVE DIRECTOR

Mr. Hung Yuk Miu (洪育苗), aged 43, was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017. Mr. Hung has been re-designated from an executive Director to a non-executive Director with effect from 30 April 2019 primarily due to reallocation of responsibilities amongst the Group's management team. Mr. Hung joined our Group in May 2014 and, prior to re-designation as a non-executive Director, was the chief financial officer of our Group responsible for managing and overseeing the financial management of our Group. From July 2019 to May 2020, Mr. Hung was the chief financial officer and company secretary of Sheng Yuan Holdings Limited (stock code: 851), a company listed on the Stock Exchange. Since June 2020, Mr. Hung served as the vice president, the company secretary and chief financial officer of Greentech Technology International Limited (stock code: 195). Mr. Hung is an independent non-executive director of Shinsun Holdings (Group) Co., Ltd. since 1 March 2022 (stock code: 2599).

From August 2004 to October 2006, Mr. Hung worked at Deloitte Touche Tohmatsu, Hong Kong branch, an accountancy firm, and his last position was senior accountant, responsible for external audit works. From October 2006 to May 2014, he worked at Deloitte Touche Tohmatsu Certified Public Accountants LLP, Shenzhen branch, an accountancy firm, and his last position was manager in audit department, responsible for external audit works.

Mr. Hung graduated from Curtin University of Technology in Australia with a Bachelor of Commerce (double major in accounting and finance) in September 2004. In November 2007, Mr. Hung was admitted as a certified practising accountant of CPA Australia Ltd. Since January 2011, he has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wing Heng Henry (伍永亨), aged 41, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of management of our Company. Mr. Ng has over 14 years of experience in accounting, auditing and corporate governance. From January 2008 to March 2010, Mr. Ng worked at PricewaterhouseCoopers, an accountancy firm, as the senior associate at Assurance of Financial Services Practice, responsible for the auditing and accountancy procedures of Hong Kong companies. Since September 2010, he has worked at Tony Kwok Tung Ng & Co., an accountancy firm, and was appointed as a principal in January 2013, responsible for reviewing statutory audit files of both local and multinational companies, managing the audit teams and leading the non-audit projects and consulting services.

In May 2005, Mr. Ng was awarded a Bachelor of Science (accounting) degree by the University of Southern California in the United States. In August 2007, he was admitted as a member of the American Institute of Certified Public Accountants. In May 2012, he was admitted as a practising member in Washington State Board of Accountancy. Since January 2015, he has been a practising certified public accountant of the HKICPA.

Mr. Ng is also a member of the Appeal Panel (Housing) under section 7A of the Housing Ordinance (Cap. 283); a member of Appeal Board Panel under section 27 of the Urban Renewal Authority Ordinance (Cap. 563); an adjudicator of Immigration Tribunal established under section 53F of the Immigration Ordinance (Cap. 115); and an advisor of Panel of Advisors established under the Film Censorship Ordinance (Cap. 392).

Mr. Fong Kin Tat (方建達), aged 49, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of management of our Company.

Mr. Fong has extensive experience in corporate management. From August 1997 to July 2000, Mr. Fong worked at IBM, a multinational technology company, as an advisory IT specialist, responsible for pitching the IT solution concept to IBM clientele. From August 2000 to August 2004, he worked at AGENDA (H.K.) Limited (now under Wunderman, formerly PNM Solutions), a digital marketing company, as a sales and marketing manager, responsible for sourcing customers in Hong Kong and China. From August 2004 to November 2011, he worked at Sun Tze Swimwear Printing Co., Ltd., a specialised printer for stretch fabrics, as the managing director, responsible for overall operation and management. Since December 2011, he has been the managing director of Times Swimwear Printing Co., Ltd., a company engaging in printing of swimwear, responsible for marketing and overall management.

In June 1997, Mr. Fong graduated from the University of Toronto in Canada with a Bachelor of Science.

Dr. Chan Yee Wah (陳綺華), aged 59, was appointed as an independent non-executive Director and chairwoman of the Nomination Committee on 5 December 2023. She is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of our Group. She has over 30 years of experience in finance and management, investor relations and corporate governance. Dr. Chan is the founding chairlady of Hong Kong Investor Relations Association. She is currently the Head of Investor Relations of C C Land Holdings Limited (stock code: 1224), a company whose shares are listed on the Main Board of the Stock Exchange. She is also an independent non-executive director of each of Capital Environment Holdings Limited (stock code: 3989), a company whose shares are listed on the Main Board of the Stock Exchange, and Xtep International Holdings Limited (stock code: 1368), a company whose shares are listed on the Main Board of the Stock Exchange.

Biographical Details of Directors and Senior Management

Dr. Chan obtained a Bachelor of Arts in Accountancy from the City University of Hong Kong, a Master of Business Administration from the University of Nottingham, the United Kingdom, and a Doctor of Business Administration from The Hong Kong Polytechnic University. Dr. Chan is a fellow member of each of the Hong Kong Institute of Certified Public Accountants (previously known as the Hong Kong Society of Accountants), the Association of Chartered Certified Accountants and the Hong Kong Chartered Governance Institute.

SENIOR MANAGEMENT

Mr. Xi Bin (奚斌), aged 48, joined our Group in October 2011. He was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017 and resigned as executive Director on 5 December 2023. He is responsible for managing and overseeing the operations and sales function of our Group, but has remained as the chief executive officer of our Group. Mr. Xi is a director of various subsidiaries of the Company.

Mr. Xi has over 23 years of experience in the textile industry. From April 1997 to November 2007, Mr. Xi worked as the merchandising manager of Dongguan Julong Textile Company Limited* (東莞聚龍製衣有限公司), a company engaging in textile-related business, responsible for sales and marketing. From January 2007 to November 2016, Mr. Xi worked as general manager in Zhuhai Zhaotian Trading, a sourcing agent, responsible for its overall operation. Mr. Xi graduated from Xidian University (西安電子科技大學) in the PRC with a Bachelor of Business Administration in March 2011. Mr. Xi was awarded the degree of Master of Business Administration in November 2016 by China Europe International Business School (中歐國際工商學院) in the PRC.

Mr. Li Yanmin (李彥敏), aged 58, joined our Group in May 2015 as deputy general manager and human resources controller. He is responsible for operating and overseeing the human resources department of our Group.

From November 2004 to July 2010, he was employed by Fu Yu Precision Component (Kun Shan) Co., Ltd.* (富鈺精密組件(昆山)有限公司), a company engaging in electronic research & processing, with his last position as human resources officer, responsible for human resources management. From July 2010 to February 2012, he worked at PanAsialum (China) Company Limited* (滎陽鋁業(中國)有限公司), a company engaging in aluminium trading, as the assistant chief executive officer, responsible for overall operation support to the management.

Mr. Li graduated from Central South University of Technology (中南工業大學) with a Bachelor of Engineering (Mining Engineering), specialising in engineering surveying in July 1988.

COMPANY SECRETARY

Mr. Sin Kin Hong Edward (冼健航), aged 40, was appointed as the Company Secretary of the Group on 28 August 2023. Mr. Sin has over 17 years of experience in financial accounting, corporate finance and private equity investment. Mr. Sin received his Bachelor's Degree of Economics and Finance from the University of Hong Kong in 2006. Mr. Sin is a fellow member of the Hong Kong Institute of Certified Public Accountants in Hong Kong, as well as a partner and director in a local audit firm.

* The English translation of the name is for reference only. The official name of the entity is in Chinese.

Corporate Governance Report

INTRODUCTION

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the principles of good corporate governance as set out in the Corporate Governance Code in Appendix C1 (formerly Appendix 15) to the GEM Listing Rules (the "**CG Code**"). During FY2023 and up to the date of this report, the Company has complied with all the applicable code provisions of the CG Code. For the purpose of this Corporate Governance Report, references to a provision in the CG Code are references to such then prevailing provisions.

CULTURES AND VALUES

Well-established corporate culture across the Group is integral to attaining the Group's vision and strategy. The Board would foster a corporate culture with the following core principles and ensure that the Group's vision, values, and strategies are aligned.

Business Strategies:

The Group's target is to keep innovating and pursuing excellence with a view to delivering good quality products to the customers' satisfaction. Distinguishing us from its competitors would enhance the customer's loyalty to the Group.

Integrity:

The Group strives to maintain high standards of business ethics and corporate governance across all activities and operations of the Group. The Directors, senior management, and employee are all required to act lawfully, ethically, and responsibly. The staff handbook of the Group sets out the requires standards and norms, including the code of conduct, for all staff. Frequent training is conducted from time to time to reinforce the required standards and norms in respect of ethics and integrity. The Group also established and implemented the anti-corruption policy and the whistleblowing policy to enhance the awareness of internal corporate justice.

Commitment:

The Group's strategy in business development and management is to achieve long-term, steady and sustainable growth while taking due considerations into environmental, social, and governance aspects.

THE BOARD

Responsibilities

The Board is entrusted with the overall responsibility for promoting the success of the Company by providing effective leadership and direction to its business, and ensuring transparency and accountability of its operations. The Board is responsible for all decision-making in respect of all major matters of the Company, including the approval and monitoring of all policy matters (including ESG policy and Whistle blowing policy), overall strategies and budgets, internal control systems, risk management systems, material transactions (in particular those which may involve conflict of interests), financial information, change of Directors, ad hoc projects and other significant financial and operational matters. The Board has the full support of the management of the Group to discharge its responsibilities.

Corporate Governance Report

THE BOARD *(Continued)*

Responsibilities *(Continued)*

The day-to-day management, administration and operation of the Company are currently delegated to the executive Directors by the Board and the senior management of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions. All Directors have full and timely access to all relevant information of the Company, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent advice in appropriate circumstances at the Company's expense, upon making request to the Board.

In addition, the Board has also delegated various responsibilities to the board committees of the Company. Further details of the board committees of the Company are set out below in this corporate governance report.

The Company has arranged appropriate liability insurance coverage for all the Directors and officers of the Group, including company securities, employment practices, regulatory crisis event, investigation, litigation, tax liabilities and public relation, etc., which is reviewed by the Board on a regular basis.

Composition

The nomination committee of the Board (the "**Nomination Committee**") ensures that the Board boasts balance of skills, experiences, qualifications and diversified perspectives in relation to business and development of the Company. The current composition of the Board consists of three (3) executive Directors, one (1) non-executive Director ("**NED**") and three (3) independent non-executive Directors ("**INED(s)**"). INEDs are responsible for exercising independent judgment on various Board decisions. The Directors during the year ended 31 December 2023 and up to the date of this report were:

Executive Directors

Mr. Wong Kai Hung Kelvin (*Chairman*)
Mr. Li Jian (Appointed on 28 August 2023)
Mr. Chen Simon Guomin (Appointed on 14 November 2023)
Mr. Xi Bin (Resigned on 5 December 2023)

Non-executive Director

Mr. Hung Yuk Miu

Independent non-executive Directors

Mr. Fong Kin Tat
Mr. Ng Wing Heng Henry
Dr. Chan Yee Wah (Appointed on 5 December 2023)

The current term of appointment of Mr. Wong Kai Hung Kelvin, an executive Director, is for a term of three (3) years commencing from 1 April 2023, and that of Mr. Li Jian and Mr. Chen Simon Guomin, each an executive Director, is for a continuous term commencing from 28 August 2023 and 14 November 2023 respectively, all subject to retirement and re-election in accordance to the articles of association of the Company (the "**Articles**") and the GEM Listing Rules. The appointments are terminable by either the Company or the executive Director giving each other three-month notice in writing. Each of the INEDs, Mr. Fong Kin Tat and Mr. Ng Wing Heng Henry, has entered into a letter of appointment with the Company for a term of three (3) years commencing on 23 April 2021, and Dr. Chan Yee Wah, an INED, has entered into a letter of appointment with the Company for a continuous term commencing on 5 December 2023.

Corporate Governance Report

THE BOARD *(Continued)*

Composition *(Continued)*

The current term of appointment of the NED is for a term of three (3) years commencing on 1 November 2023.

Pursuant to Article 83(3) of the Articles, each of Mr. Li Jian, Mr. Chen Simon Guomin and Dr. Chan Yee Wah will retire from the office of Director by rotation and shall, being eligible for re-election at the forthcoming annual general meeting of the Company to be held on Friday, 31 May 2024 (the “**2024 AGM**”), offer themselves for re-election at the 2024 AGM, and pursuant to Articles 84(1) and 84(2) of the Articles, certain number of Directors shall also retire from office at the 2024 AGM.

The participation of INEDs in the Board brings a diverse range of expertise, skills and independent judgment on issues relating to the Group’s strategies, performance, conflicts of interests and management process to ensure that the interests of all shareholders of the Company (the “**Shareholders**”) have been duly considered. Each of the INEDs has confirmed in writing his or her independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules and the Board and the Nomination Committee considered that all INEDs are independent.

There is a balance of skills and experiences for the Board, which is appropriate for the Company’s business. The Directors’ biographical information is set out in the section headed “Biographical Details of Directors and Senior Management” of this annual report.

Each of the Board members has no financial, business, family or other material/relevant relationships with each other.

The list of current Directors (by category) is also disclosed in this report and all corporate communications are issued by the Company pursuant to the GEM Listing Rules from time to time. The Company also maintains on its website (www.smart-team.cn) and on the Stock Exchange’s website (www.hkexnews.hk) an updated list of current Directors (by category) identifying their roles and functions.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to code provision C.1.4 of CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant.

It is the Company’s practice to have each newly appointed Director to receive comprehensive, formal and tailored induction at time around the first occasion of his appointment, so as to ensure that he/she has appropriate understanding of the Group structure, Board and Board committee meetings procedures, business, management and operations of the Group, etc. and that he/she is fully aware of his/her responsibilities and obligations under the GEM Listing Rules and applicable regulatory requirements.

Besides, the Company keeps circulating information and materials to develop and update Directors’ knowledge and skills as and when appropriate. All the information and materials are relevant to the Group’s business, the economy, corporate governance, rules and regulations, accounting, financial or professional skills and/or directors’ duties and responsibilities. There are also arrangements in place for providing continuing briefing and professional development to each Director to ensure that they have a proper understanding of the Company’s operations and business and are fully aware of their responsibilities under common law, rules and regulations and the Company’s policies. All Directors are encouraged to attend relevant training courses at the Company’s expense. The Company Secretary is responsible for keeping records of training taken by each Director.

Corporate Governance Report

CONTINUOUS PROFESSIONAL DEVELOPMENT *(Continued)*

The individual training record of each Director received during the year ended 31 December 2023 is set out below:

| | Attending training course(s) relevant to Laws and the GEM Listing Rules | Reading materials relevant to the updates on the GEM Listing Rules including corporate governance |
|--|---|---|
| Executive Directors | | |
| Mr. Wong Kai Hung Kelvin (<i>Chairman</i>) | ✓ | ✓ |
| Mr. Xi Bin (Resigned on 5 December 2023) | ✓ | ✓ |
| Mr. Li Jian (Appointed on 28 August 2023) | ✓ | ✓ |
| Mr. Chen Simon Guomin (Appointed on 14 November 2023) | ✓ | ✓ |
| Non-executive Director | | |
| Mr. Hung Yuk Miu | ✓ | ✓ |
| Independent non-executive Directors | | |
| Mr. Sze Irons, <i>BBS JP</i> (Resigned on 5 December 2023) | ✓ | ✓ |
| Mr. Fong Kin Tat | ✓ | ✓ |
| Mr. Ng Wing Heng Henry | ✓ | ✓ |
| Dr. Chan Yee Wah (Appointed on 5 December 2023) | ✓ | ✓ |

BOARD MEETINGS

Pursuant to code provision C.5.1 of the CG Code, the Board should meet regularly and Board meetings should be held at least four times a year for reviewing and approving financial statements, operating performance, budgets, rules and regulations, announcements and circulars issued by the Company and considering and approving the progress of the various on-going projects, the overall strategies and policies of the Company. Additional meetings would be arranged if and when required. Annual meeting schedules of each meeting of the Board and for the audit committee (the “**Audit Committee**”), the Nomination Committee, the remuneration committee (the “**Remuneration Committee**”) and the corporate governance committee (the “**Corporate Governance Committee**”) of the Board (each a “**Committee**” together (the “**Committees**”)) are normally made available to Directors in advance. Board members are provided with all agenda and adequate information for their review before the meetings. The Board and Committee members are provided with comprehensive meeting papers and relevant materials within a reasonable period of time in advance of the intended meeting date (in any event no less than 3 days before the date of the meeting). These meeting papers and relevant materials are in form and substance sufficient to enable the Board/Committee members to make informed decisions on matters to be considered by them. Queries raised by Board/Committee members would receive a prompt and full response, if possible. All Directors and the Committee members are given opportunities to include matters in the agenda for regular Board and Committee meetings if they so wish. To facilitate the decision-making process, the Directors and the Committee members are free to have access to management for enquiries and to obtain further information, when required.

After the meeting, draft minutes are circulated to all Directors and Committee members for comments. Minutes of Board meetings and Committees’ meetings are kept by the Company Secretary and are available for inspection by the Directors at all times.

Corporate Governance Report

BOARD MEETINGS (Continued)

The minutes of the Board/Committee meetings contain detailed records of all the issues considered and the decisions made by the Directors or, as the case may be, the committee members.

Directors and Committee members may participate either in person or through electronic means of communications. Directors and Committee members are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at meetings. Directors and Committee members who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. During the year ended 31 December 2023, the Board had at least four regular meetings and at least one meeting for each of the Committees. The individual attendance records of each Director at these meetings are set out below:

| Name of Directors | Attendance record of Directors at the meetings | | | | | |
|--|--|-----------------|------------------------|----------------------|--------------------------------|-----------------|
| | Board | Audit Committee | Remuneration Committee | Nomination Committee | Corporate Governance Committee | General meeting |
| Mr. Wong Kai Hung Kelvin | 11/11 | N/A | 3/3 | 3/3 | N/A | 1/1 |
| Mr. Li Jian (Appointed on 28 August 2023) | 2/2 | N/A | N/A | N/A | N/A | N/A |
| Mr. Chen Simon Guomin (Appointed on 14 November 2023) | N/A | N/A | N/A | N/A | N/A | N/A |
| Mr. Xi Bin (Resigned on 5 December 2023) | 8/11 | N/A | N/A | N/A | N/A | 0/1 |
| Mr. Hung Yuk Miu | 11/11 | N/A | N/A | N/A | N/A | 1/1 |
| Mr. Sze Irons, <i>BBS JP</i> (Resigned on 5 December 2023) | 10/11 | 4/4 | N/A | 3/3 | N/A | 0/1 |
| Mr. Fong Kin Tat | 10/11 | 4/4 | 2/3 | N/A | N/A | 1/1 |
| Mr. Ng Wing Heng, Henry | 11/11 | 4/4 | 3/3 | 3/3 | N/A | 1/1 |
| Dr. Chan Yee Wah | N/A | N/A | N/A | N/A | N/A | N/A |

Besides the above Board meetings, the Chairman of the Board, Mr. Wong Kai Hung Kelvin held a meeting with the INEDs without the presence of other Directors during FY2023.

Apart from the said meetings, matters requiring Board approval were also arranged by means of circulation of written resolutions of all Board members.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the chairman of the Board and chief executive officer to ensure a balance of power and authority. The responsibilities of the chairman of the Board and the chief executive officer are clearly defined. The roles of chairman and chief executive officer of the Company are separate and not performed by the same individual to avoid power being concentrated in any one individual. Mr. Wong Kai Hung Kelvin was the chairman of the Board who provides leadership for the Board and ensures that the Board works effectively, performs its responsibilities and discusses all key and appropriate issues in a timely manner. Mr. Wong is also responsible for, amongst other matters, drawing up and approving the agenda for each board meeting; taking into account matters proposed by the other directors for inclusion in the agenda and ensuring that good corporate governance practices and procedures are established. Mr. Xi Bin was the chief executive officer of the Company who is responsible for the day-to-day management of the Company's business throughout the year.

Corporate Governance Report

BOARD COMMITTEES

The Board has established four Committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee, for overseeing different aspects of the Company's affairs. All Committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.smart-team.cn. All Committees should report to the Board on their decisions or recommendations made. All Committees are provided with sufficient resources to perform their duties, including support from the external auditor and legal counsel, and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense. The Board would resolve to provide separate independent professional advice to directors to assist them in performing their duties to the Company if needs be.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference adopted on 23 April 2018. The terms of reference of the Audit Committee, which was updated on 1 January 2019, is currently made available on the Stock Exchange's website and the Company's website.

The Audit Committee is delegated with the authority from the Board to provide independent oversight of the Group's financial reporting, risk management and internal control systems, and the adequacy of the external audits.

The Audit Committee currently consists of three (3) INEDs, namely Mr. Ng Wing Heng Henry, Dr. Chan Yee Wah and Mr. Fong Kin Tat. Mr. Ng Wing Heng Henry, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules currently serves as the chairman of the Audit Committee.

Pursuant to the terms of reference of the Audit Committee and code provision D.3.3 of the CG Code, the members of the Audit Committee should meet at least four times a year to consider the budget, revised budget, quarterly reports, interim report and annual report before submission of the same to the Board and meet the external auditors at least twice a year.

For the year ended 31 December 2023, the members of the Audit Committee met the external auditors twice, fulfilling the requirement under code provision D.3.3 of the CG Code. During the year ended 31 December 2023, the individual attendance records of each member at the meeting of the Audit Committee is set out on page 21 of this annual report. Besides, there is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditor.

Highlights of the Committee's Work in 2023

During the year ended 31 December 2023, four (4) meetings were held by the Audit Committee, two (2) of which with the presence of the external auditor. The work performed by the Audit Committee during the year ended 31 December 2022 included, but not limited to, discussing and reviewing the following before recommending them to the Board for consideration and approval:

- a. the quarterly, interim and annual financial statements, results announcements and reports, the related accounting principles and practices adopted by the Group and the relevant audit findings;
- b. the risk management and internal control system of the Group;
- c. the re-appointment of external auditor;
- d. the adequacy and effectiveness of the Group's risk management and internal control systems and its accounting, financial reporting and internal audit functions;

Corporate Governance Report

AUDIT COMMITTEE (Continued)

Highlights of the Committee's Work in 2023 (Continued)

- e. the significant findings of the internal audit and external auditor and management's response to their recommendations;
- f. the Company's continuing connected transactions and related parties transactions for the year ended 31 December 2023 pursuant to the GEM Listing Rules; and
- g. the amendment of the policies of (i) the Anti-Corruption Policy; (ii) the Whistle-blowing Policy; (iii) the Board Diversity Policy; (iv) Shareholder Communication Policy; (v) Supplier's Code of Conduct; (vi) Climate Change Strategy; and (vii) Terms of Reference of ESG Working Group.

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the year ended 31 December 2023 and up to the date of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2023, the fee paid/payable to auditor in respect of audit service and/or non-audit services provided by the auditor to the Group was as follows:

| Nature of services | 2023 | 2022 |
|--------------------|----------|----------|
| | HK\$'000 | HK\$'000 |
| Audit services | 615 | 615 |
| Non-audit services | – | – |

NOMINATION COMMITTEE

The Nomination Committee is delegated with the authority from the Board to formulate and implement the policy for nominating Board candidates for election by Shareholders. To ensure that independent views and input of the INEDs are made available to the Board, the Nomination Committee and the Board are committed to assessing INEDs' independence annually by considering:

- (1) Declaration of conflict of interest in their roles as INEDs; and
- (2) Time commitment and attention to the Company's affairs.

The Company also has a board diversity policy (the "**Board Diversity Policy**") and a nomination policy (the "**Nomination Policy**") in place. The Nomination Policy aims at applying the principles of the Board Diversity Policy and other provisions under the GEM Listing Rules to improve transparency of the process and criteria adopted by the Nomination Committee in selecting and recommending candidates to the Board on the appointment or re-appointment of Directors (including NED and INED(s)).

In identifying candidates qualified to become members of the Board, the Nomination Committee will give adequate consideration to the Board Diversity Policy and the Nomination Policy. While all Board appointments will continue to be made on a merit basis, a number of factors will also be taken into account, including but not limited to age, skills, regional and industry experience, cultural and educational background, race, gender and other qualities so as to ensure that the Board boasts a balance of skills, experiences as well as a diversity of perspectives. In forming its perspective on diversity, the Nomination Committee will also take into account factors based on the Company's own business model and specific needs from time to time.

Corporate Governance Report

NOMINATION COMMITTEE *(Continued)*

The Nomination Policy and the Board Diversity Policy are reviewed and shall continue to be reviewed annually to ensure its effectiveness. The Nomination Committee would make recommendations (if any) on any proposed changes to the Board to complement the Company's corporate strategy.

The Board currently has one female Director, Dr. Chan Yee Wah (appointed on 5 December 2023). During the year ended 31 December 2023, the Nomination Committee was satisfied with the diversity of the existing Board composition and did not, for the time being, set up any measurable objective regarding board diversity. The Company is committed to providing equal opportunities pursuant to the Nomination Policy and the Board Diversity Policy and selecting suitable candidates objectively, and will continue to ensure that qualified female candidates are given equal consideration alongside male counterparts. By placing such emphasis on gender diversity in succession planning, the Company will ensure that a diverse pipeline of candidates for appointment to the Board will be available when vacancies arise.

The Company is also committed to achieving gender diversity across the workforce. The details of the gender ratio in the workforce (including senior management) are disclosed in the section headed "Environmental, Social and Governance Report" of this annual report. The Group's strategy of talent acquisition is to employ the appropriate staff for a suitable position regardless of gender, upholding a fair, equitable and transparent recruitment process. Leadership positions at various departments of the Group are taken up by staff of different genders, and in the interests of enhancing efficiency, the Company has not set a measurable objective for achieving gender diversity at workforce level. Nonetheless, on a merit-based policy, the Company is committed to providing equal and fair treatment to all employees, encompassing areas such as recruitment, remuneration, training, promotion, dismissal, retirement, and other aspects of employment.

As to the right to nominate, both the Directors and the Shareholders may nominate person(s) to be appointed as a Director. Upon assessing the merits and the independence of INEDs by the Nomination Committee, the Nomination Committee will make recommendations to the Board. For detailed nomination procedures, please refer to the Nomination Policy and the nomination procedure of the Company uploaded on the Company's website and the Stock Exchange's website.

The Nomination Committee consists of one (1) executive Director, namely Mr. Wong Kai Hung Kelvin, and two (2) INEDs, namely Dr. Chan Yee Wah and Mr. Ng Wing Heng Henry. Dr. Chan Yee Wah currently serves as the chairwoman of the Nomination Committee. The primary duties of the Nomination Committee include, among other things, making recommendations on any proposed changes to the Board to complement our Company's corporate strategies.

Highlights of the Committee's Work in 2023

During the year ended 31 December 2023, the Nomination Committee held three (3) meetings. The work performed by the Nomination Committee during the year ended 31 December 2023 included, but was not limited to, discussing and reviewing the following before recommending them to the Board for consideration and approval:

- a. structure, size, and diversity of the Board, in particular, the completion of the targets and timelines for achieving gender diversity at the workforce level and Board level;
- b. individuals suitably qualified for appointment as Director;
- c. succession planning for the Directors, senior management, and key staff of the Group;
- d. independence of the Independent Non-executive Directors;
- e. re-election of retiring Directors at the 2024 AGM, including the assessment of the ability to devote sufficient time to the Board and the length of service of the proposed independent Non-executive Directors according to the requirements of the GEM Listing Rules; and
- f. appointment of new executive Directors and a new independent non-executive Director.

Corporate Governance Report

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is also responsible for, among others, performing the corporate governance duties as set out in the code provision A.2.1 of the CG Code, which include:

- a. developing and reviewing our Group's policies and practices on corporate governance and making appropriate recommendations to the Board;
- b. reviewing and monitoring the training and continuous professional development of the Directors and senior management;
- c. reviewing and monitoring our Group's policies and practices on compliance with legal and regulatory requirements;
- d. developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to the Directors and employees; and
- e. reviewing our Group's compliance with the provisions of the CG Code and disclosure in the corporate governance report.

The Corporate Governance Committee currently consists of one (1) executive Director, Mr. Wong Kai Hung Kelvin and two (2) INEDs, namely, Mr. Ng Wing Heng Henry and Mr. Fong Kin Tat. Mr. Wong Kai Hung Kelvin currently serves as the chairman of the Corporate Governance Committee.

Highlights of the Committee's Work in 2023

During the year ended 31 December 2023, the members of the Corporate Governance Committee have fulfilled the requirement of code provision A.2.1 and reviewed and supervised from time to time the training and continuous professional development of the Directors; reviewing and monitoring the code of conduct and compliance with legal and regulatory requirements and reviewing the Company's compliance with the CG Code and disclosure in this report.

REMUNERATION COMMITTEE

The Remuneration Committee is delegated with the authority from the Board to establish, review, and make recommendations to the Board on the Group's remuneration policy and practices. The Remuneration Committee ensures that all employees and Directors are appropriately remunerated in accordance with the Group's strategy as well as its long-term and short-term performance.

The Remuneration Committee consists of one (1) executive Director, namely Mr. Wong Kai Hung Kelvin, and two (2) INEDs, namely Mr. Fong Kin Tat and Mr. Ng Wing Heng Henry. Mr. Fong Kin Tat currently serves as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include, among other things, making recommendation to the Board on our Group's policy and structure for all Directors' and senior management's remuneration, on the establishment of a formal and transparent procedure for developing remuneration policy and on the remuneration packages of individual executive Directors and senior management. The Remuneration Committee is also responsible for assessing the performance of the Directors and approving the terms of their service contracts and will also review any share that the Company may adopt in the future at vast on an annual basis.

Corporate Governance Report

REMUNERATION COMMITTEE *(Continued)*

Remuneration Policy

The emolument of the Group's employees is mainly determined based on (i) the prevailing market level of remuneration, (ii) the individual performance and (iii) their working experience.

The Company formulates the remuneration policy to retain and attract the executive staff to achieve the success of the Group and to encourage the executive staff to pursue appropriate growth strategies while taking into account the performance of individual staff and their job duties and responsibilities. The Group should conduct a performance review and formal assessments at least once a year to review the Group employees' overall performance, achievements, and room for improvement.

The remuneration policies of the executive Directors and senior management of the Company are determined with reference to various factors including (i) qualification, performance, and personal abilities; (ii) the position and duty of the executive; (iii) the prevailing market level of remuneration; and (iv) the financial performance of the Group. The Group should conduct an annual review in order to offer a reasonable remuneration package to attract, retain and motivate the Directors and senior management to serve the Group.

The Directors' fee of independent non-executive Directors is determined with reference to their respective duty and responsibility in the Company and is reviewed annually.

Highlights of the Committee's Work in 2023

During the year ended 31 December 2023, the Remuneration Committee held four (4) meetings. The work performed by the Remuneration Committee during the year ended 31 December 2023 included, but not limited to, discussing and reviewing the following before recommending the same to the Board for consideration and approval:

- a. the policy and structure for the remuneration of Directors and senior management of the Group;
- b. the annual salary increment and remuneration packages for executive Directors;
- c. the Directors' fees, in particular, the Directors' fees for the independent non-executive Directors and the new Directors;
- d. the delegation of the rights to the executive Directors to determine senior management's salary package on a reasonable basis, and
- e. the remuneration package of the Company Secretary of the Group before his appointment.

Pursuant to the code provision E.1.5 of the CG Code, the remuneration of the members of the Board and senior management by band for the FY2023 is set out below:

| Remuneration Band | Number of Individuals |
|--------------------------------|-----------------------|
| Nil to HK\$1,000,000 | 6 |
| HK\$1,000,001 to HK\$2,000,000 | 4 |

Corporate Governance Report

REMUNERATION COMMITTEE *(Continued)*

Highlights of the Committee's Work in 2023 *(Continued)*

Of the five individuals with the highest emoluments, two of them (FY2022: 2) are our executive Directors. Details of the remuneration of each Director and the five individuals with the highest emoluments in the Group for the year ended 31 December 2023 are set out in notes 11 and 12 to the consolidated financial statements, respectively.

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board. The Company Secretary is responsible for advising the Board on the corporate governance matters and facilitating induction and professional development of the Directors. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws, rules and regulations, are followed.

Mr. Lei Kin Keong was the Company Secretary until his resignation on 15 August 2023. The Company has engaged Mr. Sin Kin Hong, Edward as the Company Secretary since 28 August 2023. For the professional qualifications of Mr. Sin, please refer to the section headed "Biographical Details Of Directors And Senior Management" in this report. Mr. Sin and Mr. Lei had complied with all the required qualifications, experiences and training requirements under the GEM Listing Rules. During the year ended 31 December 2023, the Company Secretaries have complied with the GEM Listing Rules by taking not less than 15 hours of relevant professional training.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2023.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The responsibilities of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements are set out in the Independent Auditor's Report on pages 77 to 81 in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "**Securities Dealing Code**"). Having made specific enquiry, all Directors have confirmed that they have complied with the Securities Dealing Code for the year ended 31 December 2023 and up to the date of this report.

Besides, the Company has adopted internal control policy in relation to the disclosure of inside information of the Company (the "**Inside Information Policy**").

No incident of non-compliance of the Securities Dealing Code and/or the Inside Information Policy was noted by the Company for the year ended 31 December 2023 up to the date of this report.

Corporate Governance Report

INTERNAL AUDIT FUNCTION

The Group has not established a standalone internal audit department. However, the Board has put in place adequate measures to perform the internal audit function in relation to different aspects including (i) the Board has established formal policies to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the GEM Listing Rules and all relevant laws and regulations and (ii) the Group engaged an external consultant to perform an internal review on certain scope. The internal audit review report is submitted to the Audit Committee for review.

The Group considers that the existing organisation structure and close supervision by management and the abovementioned engagement of the external consultant can maintain sufficient risk management and internal control of the Group. The Board reviews annually the need to set up an internal audit function by assessing the size, nature and complexity of the business of the Group from time to time and may set up an internal audit team if the need arises.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges that it is its responsibility to ensure that the Company establishes and maintains sound risk management and internal control systems within the Group and to review the effectiveness of the systems. Such systems are designed to manage and mitigate risks inherent in the Group's business (but not to eliminate all such risks) to an acceptable level, with a view to achieving business objectives and providing reasonable assurance against material misstatement, loss or fraud.

The Company does not have an internal audit function and the Board has entrusted the Audit Committee with the responsibility to oversee risk management and internal control systems of the Group on an on-going basis and to review the effectiveness of the systems annually, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function as well as those relating to the Company's ESG performance and reporting. The review covered all material controls, including financial, operational, compliance controls and risk management functions.

During FY2023, the Board, through its review, was of the view that the risk management functions and the internal control systems of the Group were effective and adequate.

Main features of the risk management and internal control systems

For the year ended 31 December 2023, the management assessed that there were no significant changes in the Group's risks (including ESG risks), and the management considered they have such ability to respond to the change in its business and the external environment.

The Group's risk governance structure and the main responsibilities of each level of the structure are summarised below:

Board/Audit Committee

- evaluates and determines the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensures the implementation of an effective risk management and internal control systems; and
- oversees the management in the design, implementation and monitoring of the risk management and internal control systems.

Corporate Governance Report

INTERNAL CONTROL AND RISK MANAGEMENT *(Continued)*

Main features of the risk management and internal control systems *(Continued)*

Management

- designs, implements and monitors the risk management and internal control systems;
- identifies and assesses the risks which threaten the achievement of the strategic objectives;
- reviews the risk areas and risk level;
- advises on matters raised by employees and the Company;
- adheres to and complies with relevant laws, rules and regulations;
- maintains reliable financial and accounting records in accordance with relevant accounting standards and regulatory reporting requirements;
- coordinates and promotes risk management by ensuring that risk and activities processes are operated efficiently and effectively and are in compliance with the GEM Listing Rules; and
- reports periodically to the Board.

Process Used to Identify, Evaluate and Manage Significant Risks

The Group's risk assessment processes are summarised as follows:

Risk Identification

- Identifies the risks through discussion with the management and directors of subsidiaries of the Company.

Risk Assessment

- Determines the existing controls and analyses risks in terms of consequence and likelihood in the context of those controls. The analysis considers the range of potential consequences and how likely those consequences are to occur. Consequences and likelihood are combined to produce an estimated level of risk.

Corporate Governance Report

INTERNAL CONTROL AND RISK MANAGEMENT *(Continued)*

Process Used to Identify, Evaluate and Manage Significant Risks *(Continued)*

Risk Response

- Categorises the risks into low risk, medium risk and high risk;
- Determines the strategy to handle the risk; and
- Develops the risk register and internal control audit plan and determines the frequency of review and control testing on key controls.

Risk Monitoring and Reporting

- On-going communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management during the Year, including:
 - (i) risk questionnaires completed by the management, risk register and internal control audit plan; and
 - (ii) fact finding report with recommendations on the review and testing of internal controls on certain operating cycles and areas.

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group has internal policy and procedures which strictly prohibit unauthorised use of inside information and has communicated that to all staff; the Board is aware of its obligations to announce any inside information in accordance with the GEM Listing Rules and conducts the affairs with reference to the “Guidelines on Disclosure of Inside Information” issued by the Securities and Futures Commission in June 2012. In addition, only the Directors and delegated officers can act as the Group’s spokesperson and respond to external enquiries about the Group’s affairs. In this regard, the Company has adopted the Inside Information Policy as discussed above.

During the year ended 31 December 2023, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by management. The Audit Committee also performs regular review of the Group’s performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. The Board’s annual review also considered the scope and quality of management’s ongoing monitoring of risks (including ESG risks) and of the internal control systems and the work of the external consultant engaged by the Group to perform internal review, the extent to and the frequency of communication of monitoring results to the Board, significant control failings or weakness that have been identified during the year ended 31 December 2023 and the effectiveness of the Company’s processes for financial reporting and GEM Listing Rules compliance. Such review during the year ended 31 December 2023 did not reveal any major issues and the Board considers the risk management functions and the internal control systems are effective and adequate.

Corporate Governance Report

INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

To promote effective communication, the Company maintains a website at "www.smart-team.cn" as a communication platform with Shareholders and investors, where extensive information and updates on the Group's financial information, corporate governance practices and other information, such as annual reports, interim reports and quarterly reports and announcements, are available for public. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

Shareholders are encouraged to attend the general meetings of the Company and the Directors would always make efforts to fully address any questions raised by the Shareholders at the annual general meetings of the Company. The chairman of the Board will attend the annual general meetings to answer Shareholders' questions. The auditor of the Company will also attend the annual general meetings to answer questions about the conduct of the audit.

The 2024 AGM of the Company will be held on 31 May 2024, the notice of which shall be sent to the Company's shareholders in due course.

The Company continues to enhance communication and relationship with Shareholders and investors. Designated management of the Company maintains regular dialogue with institutional investors and analysts to keep them informed of the Group's developments.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the GEM Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

Convening of extraordinary general meeting and putting forward proposals

Pursuant to Article 58 of the Articles, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

Corporate Governance Report

SHAREHOLDERS' RIGHTS *(Continued)*

Convening of extraordinary general meeting and putting forward proposals *(Continued)*

The requisition must be deposited for the attention of the Board or the Company Secretary at the principal place of business of the Company in Hong Kong from time to time or the registered office of the Company in the Cayman Islands at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. If within twenty-one (21) days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Board or the Company Secretary at our principal office in Hong Kong. The Company will not normally deal with verbal or anonymous enquiries.

The Shareholders may at any time send their enquiries and concerns to the Board in writing. Contact details are as follows:

Address: Room 1504, 303 Jaffe Road, Wan Chai, Hong Kong
Phone no.: (852) 3611 0268
Email: ir@smart-team.cn

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business, performance and strategies. The Company endeavors to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board, the chairmen of Audit Committee, Remuneration Committee, Nomination Committee or, in their absence, other members of the respective committees, will make themselves available at the annual general meetings to meet Shareholders and answer their enquiries.

The Board has reviewed the implementation of the shareholders' and investors' communication policy during FY2023. The Board confirms the effectiveness of the communication policy and will continue to review the communication policy annually.

Corporate Governance Report

DIVIDEND POLICY

The Company has adopted a dividend policy (the “**Dividend Policy**”) with effect from 1 January 2019. The Dividend Policy is subject to annual review by the Remuneration Committee. Declaration and payment of dividends by the Company is subject to compliance with the applicable law and regulations including the laws of the Cayman Islands and the Articles of the Company. The Dividend Policy sets out the factors that the Board will take into account in deciding the declaration of interim dividends, special dividends and final dividends such as the level of cash and retained earnings, the actual and projected financial performance, the projected levels of capital expenditure and other investment plans etc. The Dividend Policy aims at enhancing transparency of the Company and facilitating the Shareholders and investors to make informed investment decisions relating to the Company.

The dividend that our Directors may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by the Board:

- the level of cash and retained earnings;
- the actual and projected financial performance;
- the projected levels of capital expenditure and other investment plans; and
- restrictions on payment of dividends imposed on our Group by its financing arrangement (if any).

CONSTITUTIONAL DOCUMENTS

In order to be in line with the latest legal and regulatory requirements, including the amendments made to Appendix 3 to the GEM Listing Rules which took effect on 1 January 2022 and to allow the holding of electronic Shareholders’ meeting, the Board put forward to the Shareholders a special resolution to adopt the new memorandum (“**Memorandum**”) and Articles of the Company in substitution for, and to the exclusion of, the then existing Memorandum and Articles of the Company. On 25 May 2023, a special resolution for adopting the new Memorandum and Articles in substitution for and to the exclusion of the then Memorandum and Articles was passed by the Shareholders at the 2023 annual general meeting of the Company.

For details of the new Memorandum and Articles, please refer to the announcements of the Company dated 29 March 2023 and 25 May 2023 and the circular of the Company dated 31 March 2023.

On behalf of the Board

Wong Kai Hung, Kelvin

Chairman and Executive Director

28 March 2024

Directors' Report

The Directors are pleased to present this report and the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in sales of functional knitted fabrics and apparel.

Details of the principal activities of the subsidiaries of the Company are set out in note 29 to the consolidated financial statements. A fair review of the business of the Group during FY2023, particulars of important events affecting the Group during FY2023, and an analysis of the Group's performance using financial key performance indicators are provided in the sections headed "Chairman Statement" and "Management Discussion and Analysis" and note 6 to the consolidated financial statements in this report. Description of the principal risks and uncertainties faced by the Group can be found throughout this report, particularly in the section headed "Management Discussion and Analysis – Principal Risks and Uncertainties Facing the Group" of this report. Also, the financial risk management of the Company can be found in note 27(b) to the consolidated financial statements. These discussions form part of this report of the Directors. In addition, discussions on the Group's environmental policies and performance, the Group's compliance with relevant laws and regulations and the Group's relationships with its key stakeholders are also provided in the following sub-sections of this report of the Directors. For future business development, the Group will strengthen its position in research and development of the new functional fabrics as well as expanding different markets and strengthening the marketing and sales efforts to attract new customers. An indication of likely future developments in the Group's business is also provided in the sections headed "Chairman Statement" and "Management Discussion and Analysis" in this report.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the five years ended 31 December 2019, 2020, 2021, 2022 and 2023 as extracted from the consolidated financial statements is set out on page 4 of this report. This summary does not form part of the audited consolidated financial statements of the Group.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2023 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of this annual report.

The Board did not recommend the payment of final dividend for the year ended 31 December 2023 (2022: nil).

PLANT AND EQUIPMENT

Details of movements in plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2023 are set out in note 24 to the consolidated financial statements of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

RESERVE

Details of movements in the reserves of the Company and the Group are set out in note 33(b) to the consolidated financial statements and the consolidated statement of changes in equity of this report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company's reserves available for distribution to Shareholders comprised of the share premium, capital reserve and retained profits with an aggregate amount of approximately HK\$56,034,000 (2022: HK\$41,670,000).

REVIEW OF FINANCIAL INFORMATION

The Audit Committee comprises three INEDs, namely, Mr. Ng Wing Heng Henry, Dr. Chan Yee Wah, and Mr. Fong Kin Tat. Mr. Ng Wing Heng Henry is the chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has discussed the internal controls system, risk management system and financial reporting matters including the review of the audited consolidated financial statements and annual results of the Group for the year ended 31 December 2023.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2023, the aggregate sales attributable to the Group's largest customer and the five largest customers accounted for approximately 26.6% and 76.1% (2022: 25.5% and 73.0%) of the Group's total revenue for the year, respectively.

During the year ended 31 December 2023, the aggregate purchases attributable to the Group's largest supplier and the five largest suppliers accounted for approximately 23.1% and 62.7% (2022: 31.7% and 81.2%) of the Group's total purchase for the year, respectively.

At no time during the year ended 31 December 2023 that any of the Directors, their close associates or any Shareholders (to the best knowledge of the Directors who own more than 5% of the Company's issued share capital), has any interests in any of the above five largest customers and suppliers of the Group for the year ended 31 December 2023.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers, customers and other stakeholders to meet its immediate and long-term goals. The Group, being a fabric providers, should maintain stable relationships with raw material suppliers in order to control the quality of the raw materials, reduce time use for the supplier verification and lower the cost of raw materials by bulk purchase. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

During the year ended 31 December 2023, there was no material and significant dispute between the Group and its employees, suppliers, customers and/or other stakeholders.

Directors' Report

RELATIONSHIP WITH KEY STAKEHOLDERS

(i) Employees

Employees are the most valuable assets of the Group. The Group is willing to invest in employees by providing on-the-job training. The training programs cover the skill of management, sales and marketing, and quality control. Additionally, the Group emphasises the importance and necessity of cultivating an ethical culture inside a company.

The Group offers employees competitive remuneration packages comprising basic salary, staff quarters and performance-based bonus and implements a sound performance appraisal system with appropriate incentives to retain skilled and qualified employees.

The Group arranges department gatherings or team-building events to enhance staff communication and create a harmonious working environment.

(ii) Suppliers

The Group has developed a long-standing cooperative relationship with a number of suppliers or sub-contractors. The Group requires the suppliers or subcontractors to abide by its anti-corruption policy, ESG commitments and supply chain quality control.

The Group carefully assesses and selects its suppliers and requires them to satisfy certain assessment criteria, including track record, experience, financial strength, reputation, capability to produce high-quality products, and quality control effectiveness. The Group has also incorporated environmental and social considerations into the supplier or sub-contractors' selection process.

(iii) Customers

Efforts are taken to strengthen the relationship with the Group's existing customers and to develop cooperative relationships with potential customers. The Group works closely with such customers and adopts stringent quality control measures to ensure the quality and functionality of our products satisfy their needs and strictly comply with the ESG commitments made to customers.

The Group also maintains communication with its customers through participation in trade shows and industry exhibitions. The Group has established a set of procedures for handling customers' feedback or complaints on the products to maintain the product quality of the Group so as to build up customers' loyalty to the Group.

(iv) Shareholders

The Group recognises the importance of protecting the Shareholders' interests and of maintaining effective communication with them. The Group believes that two-way communication with the Shareholders can enhance the quality and the effectiveness of information disclosure. Such two-way communication enables the Group to maintain regular dialogue with the Shareholders and, listen carefully to the views and feedback from the Shareholders. The Group has adopted such two-way communication through general meetings and has maintained communication with Shareholders through quarterly, interim and annual reports, and results announcements.

DEED OF NON-COMPETITION

Mr. Wong Kai Hung Kelvin and Cosmic Bliss Investments Limited ("**Cosmic Bliss**") (together, the "**Past Controlling Shareholders**"), have confirmed to the Company of their compliance with the non-competition undertakings provided to the Company under a deed of non-competition (the "**Deed of Non-Competition**") entered into between the Past Controlling Shareholders and the Company dated 23 April 2018 during the year ended 31 December 2023.

Mr. Wong Kai Hung Kelvin and Cosmic Bliss have ceased to be the controlling shareholders of the Company since 11 July 2023.

The INEDs have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the Past Controlling Shareholders during the year ended 31 December 2023.

Directors' Report

DIRECTORS

The Directors who held office during the year ended 31 December 2023 and up to the date of this annual report were:

Executive Directors

Mr. Wong Kai Hung Kelvin (*Chairman*)
Mr. Xi Bin (Resigned on 5 December 2023)
Mr. Li Jian (Appointed on 28 August 2023)
Mr. Chen Simon Guomin (Appointed on 14 November 2023)

Non-executive Director

Mr. Hung Yuk Miu

Independent non-executive Directors

Mr. Sze Irons, *BBS JP* (Resigned on 5 December 2023)
Mr. Fong Kin Tat
Mr. Ng Wing Heng Henry
Dr. Chan Yee Wah (Appointed on 5 December 2023)

In accordance with the Articles, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. For details about the retirement and rotation of Directors, please refer to "Corporate Governance Report – The Board" of this annual report (pages 18 to 19).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of all the Directors and senior management of the Company are set out on pages 13 to 16 of this annual report.

INDEPENDENCE CONFIRMATION

The Company has received from each of the INEDs a written confirmation of their independence pursuant to Rule 5.09 of the GEM Listing Rules and considers that all the INEDs as independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three (3) years which is subject to termination by either party giving not less than three months' written notice and subject to retirement and re-election in accordance with the Articles and the GEM Listing Rules. All of the executive Directors' service contracts, entered into between the Company and the respective Director have been reviewed by the Nomination Committee.

The Company has entered into a letter of appointment with the NED. The current term of appointment of the NED is for a term of three year commencing on 1 November 2023 and is subject to retirement and re-election in accordance with the Articles and terminable by either party by giving at least three months' written notice to the other.

Each of the INEDs, Mr. Fong Kin Tat and Mr. Ng Wing Heng Henry, has entered into a letter of appointment with the Company for a term of three (3) years commencing on 23 April 2021, and Dr. Chan Yee Wah, an INED, has entered into a letter of appointment with the Company for a continuous term commencing on 5 December 2023, all subject to retirement and re-election in accordance to the Articles and GEM Listing Rules and is terminable by either party by giving at least three months' written notice to the other.

None of the Directors being proposed for re-election at the 2024 AGM has a service contract or letter of appointment with the Company, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY, DIRECTORS' REMUNERATION AND PENSION SCHEME

As at 31 December 2023, the Group had 66 (2022: 63) employees. The emolument policy of the directors and senior management of the Group is formulated by the Remuneration Committee based on their merit, qualifications and competence. It is the Group's policy to compensate each employee fairly and equitably. The Group has a system for measuring employees' performance against agreed-upon goals with specific performance standards. Performance discussion is carried out on an ongoing basis and a formal evaluation is conducted at least once a year to review employees' overall performance, achievements, and areas in need of improvement. Salary review will be based on both Group's performance and individual performance and subject to the Group's discretion.

The emoluments of the Directors of the Company are generally recommended by the Remuneration Committee for approval by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. All the emoluments of Directors have been reviewed and approved or ratified by the Remuneration Committee.

Details of the emoluments of the Directors of the Company are set out in note 11 to the consolidated financial statements of this annual report.

In accordance with the laws and regulations in the PRC, the Group has arranged for its PRC employees to join defined contribution plans, including pension, medical, unemployment, maternity and occupational injury insurance, and housing provident fund organised by the PRC government. The Group contributes funds calculated on a fixed percentage of the employee's salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees. No forfeited contributions under the scheme is available to reduce the contribution payable in future years.

The Group has joined the Mandatory Provident Fund Scheme under the Mandatory Provident Fund Scheme Ordinance (Cap. 485 of the Laws of Hong Kong) (the "MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of the lower of 5% of eligible employees' relevant aggregate income and HK\$1,500 per month. The funds of the MPF Scheme are held separately from those of the Group.

Directors' Report

SHARE SCHEME

During the years respectively ended 31 December 2022 and 31 December 2023, the Company did not have any share scheme which were required to be disclosed.

MANAGEMENT CONTRACTS

No contract, other than employment contracts concerning management and administration of the whole or any substantial part of the Company's business was entered into or existed during the year ended 31 December 2023.

FULLY EXEMPT CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Provision of personal guarantees by an executive Director

Mr. Xi Bin, our executive Director until his resignation on 5 December 2023, and his spouse and hence our connected persons, have provided a personal guarantee to secure the bank facilities granted to the Group during the year ended 31 December 2023. For details, please refer to notes 22 and 28(c) to the consolidated financial statements. The provision of personal guarantees constituted a connected transaction of the Group under Chapter 20 of the GEM Listing Rules. However, as the personal guarantees provided by Mr. Xi were provided to the Group on normal commercial terms or better and were not secured by the assets of our Group, they were fully exempt from all annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

FULLY EXEMPT CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Provision of certain consultancy service by the non-executive Director

Proudy Limited, a company wholly owned by Mr. Hung Yuk Miu, a non-executive Director and thus a connected person of the Company, has entered into an agreement with the Group to provide certain consultancy service (the "**Consultancy Service**") to the Group from 1 January 2020 for a term of 3 years. On 30 December 2022, the Consultancy Service Agreement has been renewed and extended for a term of 2 years from 1 January 2023 to 31 December 2024. Such Consultancy Service constitutes a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As the Consultancy Service provided by Proudy Limited to the Group are on normal commercial terms and all the applicable percentage ratios under Chapter 20 of the GEM Listing Rules, on an annual basis, are less than 5% and the annual amount payable was less than HK\$3 million, the continuing connected transaction are fully exempted from all annual review, reporting, announcement and independent shareholders' approval under Chapter 20 of the GEM Listing Rules. The consultancy fee to Proudy Limited in FY2023 was HK\$120,000 (FY2022: HK\$120,000) as set out in note 28(a) to the consolidated financial statements of the Company contained in this annual report.

The Directors confirm that the related party transactions during FY2023 as disclosed in note 28 to the consolidated financial statements fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) but are fully exempt from all annual review, reporting, announcement and independent shareholders' approval requirements in accordance with Chapter 20 of the GEM Listing Rules.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 28 to the consolidated financial statements and in the section headed "Fully Exempt Connected Transactions and Continuing Connected Transactions" in this report of the Directors, there were no transaction, arrangement, or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which any Director or any entities connected with a Director, the controlling Shareholder, the substantial Shareholders had a material interest, whether directly or indirectly, subsisted at the end of FY2023 or at any time during FY2023.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2023, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") which are (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); (b) required to be recorded in the register required to be kept under section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Directors' Report

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE *(Continued)*

Long Positions in the Shares or the ordinary shares of the associated corporations of the Company

| Name of Director | Name of Group member/associated corporation | Capacity/nature of Interest | Total number of shares | Percentage of interest |
|---|---|-----------------------------|------------------------|------------------------|
| Mr. Wong Kai Hung Kelvin (Mr. Wong) | The Company | Beneficial Owner | 5,000 Shares | 0.00% |
| Mr. Li Jian | The Company | Beneficial Owner | 89,495,000 Shares | 15.54% |
| Mr. Chen Simon Guomin | The Company | Beneficial Owner | 80,540,000 Shares | 13.98% |

Save as disclosed above, as at 31 December 2023, none of the Directors or chief executive of the Company nor their associates had registered an interest or short position in any shares or underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Directors' Rights to Acquire Shares and Debentures

At no time during the year ended 31 December 2023 and up to the date of this report was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement which would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 31 December 2023, the following persons (other than Directors or chief executive of the Company whose interests are disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above) have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as required to be recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the Shares of the Company

| Name of person | Name of Group member | Capacity/nature of Interest | Number and class of securities | Percentage of interest |
|---|----------------------|---|--------------------------------|------------------------|
| Ms. Li Yingyang | The Company | Beneficial Owner | 81,595,000 Shares | 14.17% |
| Mr. Li Jun (<i>Note 1</i>) | The Company | (i) Beneficial Owner (ii) Interest in a controlled corporation | 100,510,000 Shares | 17.45% |
| Meta Tdex Technology LLC (" <i>Meta Tdex</i> ") (<i>Note 2</i>) | The Company | Beneficial Owner | 96,000,000 Shares | 16.67% |

Notes:

1. Mr. Li Jun, in his capacity as the beneficial owner, is interested in 4,510,000 Shares. He is also interested in 96,000,000 Shares through a controlled corporation. These 96,000,000 Shares are registered in the name of Meta Tdex, a company whose 71% of its issued share capital is owned by Mr. Li Jun. By virtue of the provisions in Part XV of the SFO, Mr. Li Jun is deemed to be interested in all the Shares held by Meta Tdex.
2. 71% of the issued share capital of Meta Tdex is owned by Mr. Li Jun.

Save as disclosed above, as at 31 December 2023, the Directors were not aware of any other person who had or deemed to have interests or short positions in the Shares and underlying Shares which has disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the existing Directors is currently in force and was in force throughout the year ended 31 December 2023. The Company has taken out directors' liability insurance that provides appropriate cover for the Directors.

Directors' Report

COMPETING INTERESTS

During the year ended 31 December 2023, none of the Directors or the then controlling shareholders of the Company or their close associates (as defined in the GEM Listing Rules) is interested in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year end 31 December 2023 or subsisted at the end of the year.

PURCHASE, SALES OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the year ended 31 December 2023 and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, as at the date of this annual report, the Company has maintained sufficient prescribed public float of not less than 25% of the issued Shares as required under the GEM Listing Rules.

CORPORATE GOVERNANCE

Details of the principal corporate governance practices as adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 17 to 33 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operating in compliance with the applicable environmental laws as well as to protecting the environment by minimising the negative impact of the Group's existing business activities on the environment. For details, please refer to the sub-section headed "A. Environmental" under the section headed "Environmental, Social and Governance Report" on pages 46 to 76 of this annual report. To the best knowledge of the Directors, the Group has complied with all relevant laws and regulations regarding environmental protection for the year ended 31 December 2023.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those having significant impact on the Group. The Board reviews and monitors the Group's policies and practices on compliance with legal and regulatory requirements on a regular basis. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

During the year ended 31 December 2023 and up to the date of this annual report, to the best of the Company's knowledge, information and belief, having made all reasonable enquiries, the Group is not aware of any non-compliance in any material respect with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the year ended 31 December 2023. Details of the Company's compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in the GEM Listing Rules are provided in the Corporate Governance Report included in this annual report.

BOARD COMMITTEES

The Board has established four Committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee for overseeing particular aspects of the Company's affairs. All Committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.smart-team.cn. All the Committees should report to the Board on their decisions or recommendations made. All Committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

EVENT AFTER THE REPORTING PERIOD

There has been no significant event affecting the Group after the financial year ended 31 December 2023 and up to the date of this report.

ANNUAL GENERAL MEETING

The 2024 AGM will be held on 31 May 2024 and the notice of the 2024 AGM will be published and despatched to the shareholders of the Company in accordance with the Company's Articles and the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the entitlement to attend and vote at the 2024 AGM, the register of members of the Company will be closed from 28 May 2024 to 31 May 2024, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the 2024 AGM, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 4:30 p.m. on 27 May 2024 (Hong Kong time).

AUDITOR

The consolidated financial statements for the year ended 31 December 2023 have been audited by SHINEWING (HK) CPA Limited ("**SHINEWING**"), the auditor of the Company, who will retire at the conclusion of the 2024 AGM and will be eligible, to re-appointment. A resolution for the re-appointment of Shinewing as auditor of the Company will be proposed at the 2024 AGM.

Wong Kai Hung, Kelvin
Chairman

Hong Kong, 28 March 2024

Environmental, Social and Governance Report

INTRODUCTION TO THE REPORT

This Environmental, Social and Governance Report (the “**Report**”) provides an overview of the initiatives, plans and performance of ST International Holdings Company Limited (“**the Company**”, together with its subsidiaries, the “**Group**” or “**We**”) in Environmental, Social and Governance (“**ESG**”) and demonstrates its commitment to sustainable development. The Group has always regarded ESG tasks are important and contributed to the Group’s sustainable development.

REPORTING PERIOD

This Report describes the ESG activities, challenges and measures taken by the Group during the year ended 31 December 2023 (the “**Reporting Period**”, “**Year**”, “**2023**”).

REPORTING SCOPE

This Report covers the Group’s business activities in Hong Kong and People’s Republic of China (PRC) where its principal business operations are located, thus represents the Group’s major sources of revenue. The Group’s headquarters is based in Hong Kong, with subsidiaries in PRC (Dongguan Smart Union Textiles Technology Co., Ltd, Guangdong Smart Team Textiles Technology Co., Ltd, and Magic Team (Beijing) International Fashion Design Co., Ltd). The reporting scope included our operations in three key business sectors: (i) lingerie and apparel brand owners, (ii) sourcing agents, and (iii) garment manufacturers. The Group excels in designing innovative and functional knitted fabrics, leveraging its expertise in product innovation.

REPORTING FRAMEWORK

This Report has been prepared in accordance with the ESG Reporting Guide as set out in Appendix C2 to the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

REPORTING PRINCIPLES

During the preparation of this ESG report, the Group has applied the reporting principles stipulated in the ESG Reporting Guide as follows:

- “*Materiality*” – A materiality assessment was conducted to identify material issues during the reporting period, thereby adopting the confirmed material issues as the focus for the preparation of this ESG Report. The materiality of issues was reviewed and confirmed by the Board. Please refer to the sections headed “Stakeholder Engagement” for further details.
- “*Quantitative*” – Supplementary notes are added along with quantitative data disclosed in this ESG Report to explain any standards, methodologies, and source of conversion factors used during the calculation of environmental KPI.
- “*Balance*” – This Report aims to provide a holistic and fair view of the sustainability performance of the Group and has not omitted any information related to material ESG topics.
- “*Consistency*” – The approach adopted for the preparation of this ESG Report was substantially consistent with the previous year, and explanations were provided regarding data with changes in the scope of disclosure and calculation methodologies.

Environmental, Social and Governance Report

FORWARD-LOOKING STATEMENT

This ESG Report contains forward-looking statements which are based on the current expectations, estimations, projections, beliefs, and assumptions of the Group about the businesses and the markets in which it operates. These forward-looking statements are not guarantees of future performance and are subject to market risks, uncertainties, and factors beyond the control of the Group. Therefore, actual outcomes may differ from the assumptions made and the statements contained in this ESG Report.

CONFIRMATION AND APPROVAL

This ESG Report was endorsed by the ESG Taskforce (the “**Taskforce**”) and approved by the board of directors (the “**Board**”) of the Group.

CONTACT US

Your feedback is valuable to our continuous improvement, and we welcome any comments and suggestions you may have on this report or our future ESG strategy in general. Please share any comments or suggestions regarding the Group’s ESG performance at yanminli@smart-team.cn.

The Board & Governance Structure

BOARD STATEMENT

The Board being ultimately responsible for monitoring the Group’s ESG issues, including ESG management approach, strategy, and policies, holds a crucial role in ensuring effective oversight. To comprehensively manage the Group’s ESG performance and proactively identify potential risks, the Board conducts materiality assessments, when necessary, with the assistance of the ESG committee. These assessments evaluate and prioritize material ESG-related issues, considering the opinions of stakeholders. Additionally, the Board reviews the progress made against ESG-related goals and targets, establishing a direct connection between these goals and targets and their relevance to the issuer’s businesses.

ESG Taskforce

The Group is committed to facilitating the development of a corporate culture in which ESG practices are fully integrated into daily business operations. The Group has established an ESG Taskforce. This Taskforce comprises core members from different departments and is responsible for collecting relevant information from our ESG aspects for preparing the ESG Reports. This Taskforce reports to the Board and assists in identifying and evaluating the Group’s ESG risks and the effectiveness of the internal control mechanisms. This Taskforce also examines and evaluates our performances in different ESG-related goals and targets such as environment, health and safety, labour standards and product responsibilities. Following the direction set by the Board, the Taskforce ensures the execution of various ESG-related strategies and policies.

STAKEHOLDER ENGAGEMENT

The Group recognizes the significance of effective stakeholder engagement and collaboration. As the operations involve a variety of stakeholder groups, their inputs allow the Group to respond promptly to sustainability challenges and opportunities. The feedback from stakeholders of different backgrounds also helps the Group understand the ever-changing market demands and global sustainability trends.

Environmental, Social and Governance Report

To facilitate effective stakeholder engagement, the Group has established several feedback and communication channels. These channels serve as vital conduits for understanding the perspectives of key stakeholders who have a substantial impact on or maintain close relationships with the Group's business. The following outlines the various communication channels that have been implemented to foster engagement and address stakeholders' primary concerns.

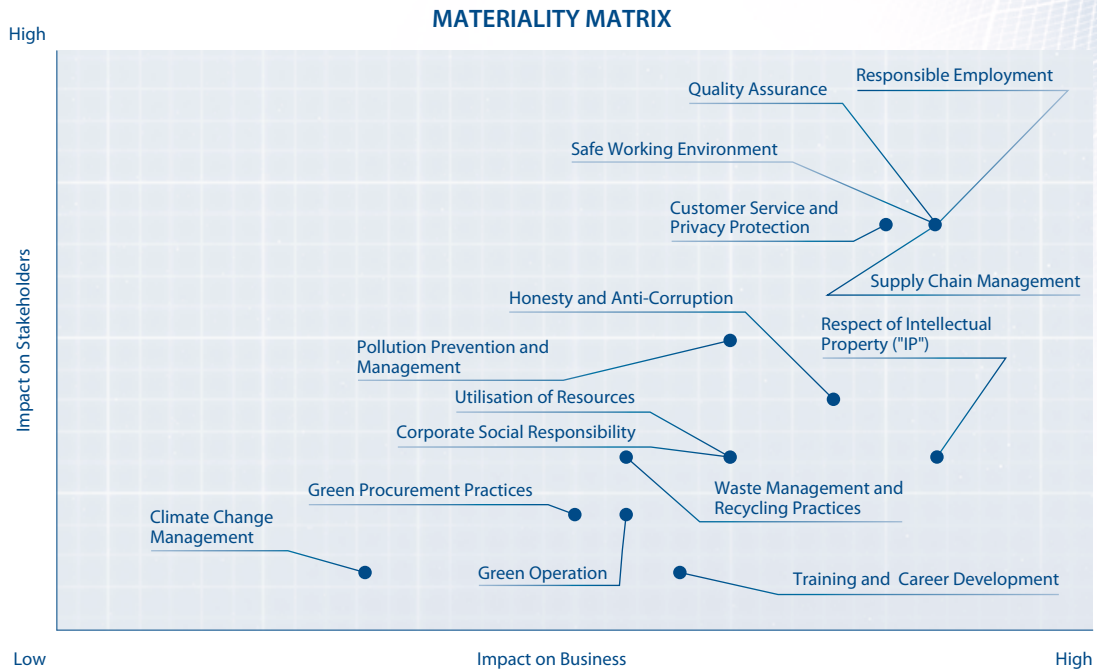
| Stakeholders | Expectations | Communication Channels |
|----------------------------|--|---|
| Employees | <ul style="list-style-type: none"> • Protection of rights • Occupational health and safety • Remuneration and benefits • Career development • Humanity care | <ul style="list-style-type: none"> • Meetings with employees • House journals and intranet • Employee mailbox • Employee activities • Training and workshops |
| Customers | <ul style="list-style-type: none"> • Outstanding products and services • Product health and safety • Performance of contracts • Operation with integrity | <ul style="list-style-type: none"> • Customer service center and hotlines • Customer feedback surveys • Customer communication meetings • Social media platforms • Client review |
| Industry | <ul style="list-style-type: none"> • Establishment of industry standards • Driving industrial development | <ul style="list-style-type: none"> • Participation of industrial forums • Visits and inspections |
| Shareholders and Investors | <ul style="list-style-type: none"> • Financial returns • Compliance with national or local policies, laws and regulations • Growth in corporate value • Transparency and effective communication | <ul style="list-style-type: none"> • General meetings • Financial reports • Announcements and circulars • Email, telephone communication and company website |
| Government and Regulators | <ul style="list-style-type: none"> • Compliance with national or local policies, laws and regulations • Support for local economic growth • Driving local employment • Tax payment in full and on time • Ensuring production safety | <ul style="list-style-type: none"> • Regular information reporting • Regular meetings with regulators • Dedicated reports • Examination and inspection |
| Business partners | <ul style="list-style-type: none"> • Operation with integrity • Fair competition • Performance of contracts • Mutual benefits | <ul style="list-style-type: none"> • Review and appraisal meetings • Business communication • Exchanges and discussions • Engagement and cooperation |
| Community and the public | <ul style="list-style-type: none"> • Improvement in the community environment • Charity participation • Transparent information • Social medial platform | <ul style="list-style-type: none"> • Company website • Announcements and circulars • Interview with media |

Environmental, Social and Governance Report

MATERIALITY ASSESSMENT

Material issues in this Report refer to what may have a significant impact on the Group's business operations or have an actual impact on stakeholders. To identify and prioritize these issues, the Group conducts a materiality assessment survey every year, presenting the findings in the form of a materiality matrix.

The following matrix is a summary of the Group's material ESG issues:



Environmental, Social and Governance Report

A. ENVIRONMENT

The Group is devoted to taking unequivocal actions towards a low-carbon future. Its strategic environmental initiatives are geared towards respect for the environment and protection of biodiversity. The Group actively promotes a circular economy as means to control and minimize its impact on nature. With an understanding that a successful net zero transition will require bold actions and transformation of the economy and society, the Group will continue to be an exemplary environmental steward for its industry and community.

The Group is dedicated to embracing a low-carbon economy and advocating for resource conservation across all its business endeavors. This dedication encompasses a proactive approach to reducing energy, water, and paper consumption throughout our operations. Our goal is to minimize our environmental impact and contribute to a sustainable future. To achieve this, we have implemented a variety of green initiatives that focus on reducing resource usage and mitigating our carbon footprint.

2025 Environmental Targets

The Group is firmly committed to its transition towards a low-carbon economy and the conservation of resources throughout its business operations. The Group announced its quantifiable targets for emissions and resource consumption that need to be achieved in FY2025. Our interim performance is as below.

| Environmental Aspects | Reduction Targets | Our 2023 ongoing Performance |
|-----------------------|--|--|
| GHG Emissions | Reduce the GHG emissions intensity (0.90 tCO ₂ e per employee) by at least 3% | 2023: 0.96 tCO ₂ e per employee |
| Paper waste | Reduce the paper waste intensity (0.005 tonnes per employee) by at least 3% | 2023: 0.004 tonnes per employee |
| Waste Disposal | Reduce the non-hazardous intensity (0.20 tonnes per employee) by at least 3% | 2023: 0.13 tonnes per employee |
| Energy Consumption | Reduce the energy consumption intensity (1.0 MWh per employee) by at least 3% | 2023: 1.7MWh per employee |
| Water Consumption | Reduce the water consumption intensity (5.33 m ³ per employee) by at least 3% | 2023: 6.97 m ³ per employee |

To achieve the environmental targets in the future, the Group will continue to record and monitor the GHG emissions and other relevant environmental data from time to time.

Environmental, Social and Governance Report

A.1 Emissions

The Group places a strong emphasis on effective environmental management and actively strives to protect the environment while fulfilling its social responsibilities. In line with this commitment, we have implemented an Environmental Management Policy and established a robust environmental management system, aiming to prevent pollution and minimize any potential environmental impacts.

Notably, our subsidiary Smart Team Textiles Technology Limited has achieved accreditation with ISO 14001:2015 Environmental Management System. This certification underscores our dedication to upholding high environmental standards and continuously improving our environmental performance. Furthermore, the Group remains steadfast in its vision of sustainable design and production. We proactively seek out green and renewable materials, actively contributing to environmental protection efforts.

During this Reporting Period, the Group was not aware of any material non-compliance with environmental-related laws and regulations in relation to exhaust gas and greenhouse gases (“GHG”), emissions, water and land discharge, and the generation of hazardous and non-hazardous waste that would have a significant impact on the Group. Such laws and regulations include but not limited to Environmental Protection Law of the People’s Republic of China, the Prevention and Control of Atmospheric Pollution of the People’s Republic of China, the Hong Kong Waste Disposal Ordinance, and the Water Pollution Control Ordinance.

Environmental, Social and Governance Report

Air Emissions

As the Group has outsourced all production processes to third-party factories, our daily operations have limited direct environmental impact. The emissions generated primarily consist of exhaust gas emissions from vehicles, GHG emissions, and non-hazardous waste.

To ensure responsible environmental practices, we have established stringent criteria for partnering with suppliers. Prior to entering business relationships, we require these factories to possess the necessary environmental permits mandated for their manufacturing activities.

Although we have limited direct control over the production processes, we proactively promote a green environment by integrating a range of environmentally friendly business practices. Our emphasis lies in raising awareness about environmental protection through education and training programs provided to our employees. This approach aims to cultivate an environmentally conscious workforce and foster compliance with relevant environmental laws and regulations.

To our reduce footprint, we have implemented the following best practices for our vehicles:

- Perform regular vehicle inspections and maintenance to maintain the efficiency of vehicles;
- Promote the practice of reminding employees to turn off the engines of idling vehicles;
- Advocate for the utilization of public transportation for business travel; and
- Minimize the frequency of business trips by leveraging electronic communication methods like video conferences or consolidate customer visits into a single business trip.

During the Reporting Period, summary of the air emissions was as below:

| Type of Air Pollutants ² | Unit | 2023 | 2022 ¹ |
|-------------------------------------|------|------|-------------------|
| Nitrogen oxides (NOx) | kg | 6.44 | 6.14 |
| Sulphur oxides (SOx) | kg | 0.09 | 0.09 |
| Particulate matter ("PM") | kg | 0.47 | 0.45 |

Note(s):

1. 2022 data has been restated
2. The calculation method of air emissions is based on "How to prepare an ESG Report - Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange

Environmental, Social and Governance Report

GREEN HOUSE GAS EMISSION

The major sources of the Group's GHG emissions are direct GHG emissions (Scope 1) from petrol combustion of company-owned vehicles, indirect GHG emissions (Scope 2) from purchased electricity, and employee air travel for business purposes (Scope 3). These reductions were achieved predominantly through energy-saving measures as illustrated in the section "Use of Resources".

- Implement proactive measures to decrease emissions stemming from vehicle petrol consumption, as outlined in the "Air Emissions" section of this aspect.
- Embrace environmental protection and energy conservation through active adoption of strategies outlined in the "Energy Management" sections under aspect A2.

| Types of GHG Emissions ¹ | Units | 2023 | 2022 |
|--|---------------------------------|-------|-------|
| Direct GHG emissions (Scope 1) | | | |
| • Petrol | tCO ₂ e | 16.53 | 16.75 |
| Indirect GHG emissions (Scope 2) | | | |
| • Purchased electricity | tCO ₂ e | 30.72 | 40.44 |
| Other indirect GHG emissions (Scope 3) | | | |
| • Business air travel | tCO ₂ e | 16.01 | 6.16 |
| Total GHG emissions (Scope 1, 2 & 3) | tCO ₂ e | 63.25 | 63.35 |
| GHG emission intensity ² | tCO ₂ e per employee | 0.96 | 1.01 |

Notes:

1. GHG emissions data is presented in terms of carbon dioxide equivalent and are based on, including but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, "How to prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange, the 2022 Sustainability Report" published by HK Electric Investments Limited and the "CLP 2022 Sustainability Report" published by CLP Holdings Ltd.
2. As at 31 December 2023, the total number of full time employees in the Reporting Scope of the Group was 66 (as at 31 December 2022: 63). This data is also used for calculating other intensity data.

Sewage Discharge

Due to the Group's outsourcing of production processes to third-party factories, the sewage generated primarily originates from water consumed by employees. The Group discharges this sewage into the municipal sewage pipe network, where it is then directed to the regional water purification plant. Consequently, the water consumed by the Group is categorized as discharged sewage. Detailed information regarding water consumption, as well as the corresponding water conservation measures, can be found in the "Water Management" section under aspect A2.

Environmental, Social and Governance Report

Waste Management

We have in place an internal waste management guideline ensuring that all waste is properly collected and handled by licensed contractors, and according to local laws and regulations. The guideline identifies responsible personnel and details of their duties. It also explicitly outlines the methods for garbage collection, storage, and disposal. We encourage our employees to follow the guideline and embrace the challenge of circularity.

Hazardous Waste

Our hazardous waste generated in mainly office supplies like toner cartridges and light tubes. Most of the hazardous wastes are temporarily stored in a specified location, and then collected by licensed contractors. Although the Group generates a negligible quantity of hazardous waste, it has implemented comprehensive guidelines for the management and disposal of such waste. If any hazardous waste is produced, the Group is obligated to enlist the services of a qualified chemical waste collector to handle and ensure proper disposal of the waste, adhering to all pertinent environmental regulations and guidelines.

Non-Hazardous Waste

Our non-hazardous waste includes waste fabrics and general waste. Throughout the Reporting Period, the Group has sold all waste fabrics to third-party manufacturers. In managing non-hazardous waste, we adhere to the principles of 4R (reduce, reuse, recycle and recycle) to handle and dispose of waste resulting from our business operations. Our waste management practices are in accordance with relevant environmental laws and regulations to ensure strict compliance.

To diminish non-hazardous waste in our business operations, we have implemented the following measures:

- Embrace the use of usable products instead of one-off office supplies whenever possible;
- Prolong the life cycle of stationery items by reusing envelopes and refilling pens;
- Implement recycling bins in office areas to enhance employees' recycling habits;
- Utilize electronic means to distribute office memos, reminding staff to print only essential materials to prevent wastage;
- Use recycled paper for printing and copying; and
- Promote double-sided printing to utilize the use of paper efficiently.

| Category of Waste | Unit | 2023 | 2022 |
|---------------------------|----------------------|------|------|
| Paper | Tonnes | 0.28 | 0.03 |
| General Waste | Tonnes | 8.39 | 1.06 |
| Total non-hazardous waste | Tonnes | 8.67 | 1.09 |
| Intensity | Tonnes per employees | 0.13 | 0.02 |

Environmental, Social and Governance Report

A.2 Use of Resources

The Group continues to introduce resource efficiency and eco-friendly measures to the Group's operations and is committed to optimizing the use of resources in all business operations. During our operation, fuel and electricity are consumed. The Group has established relevant policies and procedures in governing the efficient use of resources, in reference to the objective of achieving higher energy efficiency and reducing the unnecessary use of resources.

The Group strongly supports and promotes the efficient utilization of resources, striving to optimize their use in all business operations. We foster a sustainable office and operational environment, consistently introducing resource efficiency initiatives and eco-friendly measures to enhance the Group's operations.

Energy Management

The Group has implemented an energy management system to ensure regular monitoring and assessment of its energy consumption objectives and targets. In the event of unexpected increases in energy consumption, thorough investigations are conducted to identify the root causes. Prompt action is then taken to implement preventive measures deemed necessary to mitigate and address the underlying factors contributing to the increase.

To achieve the targets, we have implemented a range of measures and initiatives. These measures and initiatives, including the following:

- Maximize natural lighting whenever feasible and ensure all unnecessary lightings are switched off;
- Set the air conditioning system at a minimum of 25.5°C;
- Clean filters of the air-conditioning system regularly to maintain its efficiency;
- Allow employees to dress comfortably during hot weather and on Friday to minimize reliance on air conditioning;
- Enable automatic standby mode or power off computers and other information and communication technology equipment when not in use; and
- Consider using electric vehicles when the Group needs to buy new vehicles.

| Indicators | Unit | 2023 | 2022 |
|---------------------------|--------------|--------|--------|
| Direct Energy Consumption | | | |
| – Petrol | MWh | 60.21 | 61.07 |
| Indirect Energy | | | |
| – Purchased electricity | MWh | 53.87 | 69.90 |
| Total Energy consumption | MWh | 114.08 | 130.97 |
| Intensity | MWh/employee | 1.73 | 2.08 |

Environmental, Social and Governance Report

Water Management

The Group's water usage is mainly used for domestic cleaning in offices and facilities. As the Group recognizes the prevailing global water scarcity, we proactively implement strategies to address this critical issue. We promote a culture of water conservation among employees and have implemented a range of measures to mitigate water usage. The following are some of the water conservation initiatives we have established:

- Recycle and reuse grey water to clean and water plants in offices;
- Minimize water pressure to the lowest practicable level; and
- Address dripping taps promptly to prevent additional leakage and wastage.

During the Reporting Period, the decrease in water consumption can be primarily attributed to have optimized its production or operational processes to minimize water usage. Also, since the water bill being included in the property management fee for the Hong Kong office and the absence of individual meters to record water consumption, the Group was unable to access water consumption records of Hong Kong for FY2023. Below is the water consumption information of our PRC factories.

| Index | Unit | 2023 | 2022 |
|-------------------------|-----------------------------|------|------|
| Total water consumption | m ³ | 460 | 479 |
| Intensity | m ³ per employee | 6.97 | 7.60 |

During the Reporting Period, the Group did not encounter any issue in sourcing water that was fit for purpose.

Using of Packaging Materials

The disclosure is not applicable to the Group since the production of its products has been outsourced to third-party factories. Consequently, the Group does not utilize packaging materials in its day-to-day operations.

Environmental, Social and Governance Report

A.3 The Environment and Natural Resources

The Group pursues the best practices in environment protection and focuses on its impact on the environment and natural resources. The Group has integrated the concept of environmental protection into its daily operations, with the aim of achieving environmental sustainability.

Green Working Environment

To optimize productivity, the Group provides employees with a comfortable and environmentally friendly working environment. We prioritize maintaining office order and environmental cleanliness to ensure a clean and organized workspace. Additionally, we regularly monitor and measure the indoor air quality of our workplaces. To control and maintain indoor air quality, we install air purification equipment and carry out regular cleaning of air-conditioning systems, ensuring their effectiveness in filtering pollutants and dust.

A.4 Climate Change

The Group is aware of the threat posed by climate change and is actively doing its part by offsetting its carbon footprint. The Group recognizes the importance of the identification and mitigation of significant climate-related issues, therefore closely monitors the potential impact of climate change on our business and operations and is committed to managing the potential climate-related risks which may impact the Group's business activities.

Climate-related impacts can be classified into two main categories: physical risks and transition risks. The Group conducts risk assessment exercises to identify and mitigate these climate-related risks.

Physical Risks

The increased frequency and severity of extreme weather events such as typhoons, storms, heavy rains, and extreme cold or heat bring acute and chronic physical risks to the Group's business. The Group's productivity will be reduced under extreme weather events as the safety of our employees is threatened during operation work at construction sites and the power grid or communication infrastructures might be damaged, which exposes the Group to risks associated with non-performance and delayed performance, leading to direct negative impact on the Group's revenue. To minimize the potential risks and hazards, the Group has established mitigation plans, including flexible working arrangements and precautionary measures and extra formwork protection during bad or extreme weather conditions. The Group will explore emergency plans to further reduce the vulnerability of our installations to extreme weather events to enhance business stability.

Environmental, Social and Governance Report

Transition Risks

To achieve the global vision of carbon neutrality, the Group expects the evolution of the regulatory, technological and market landscape due to climate change, including the tightening of national policies, the emergence of environmentally related taxes, and the shifting of customer preference to an eco-friendlier resorts operation. In response to the policy and legal risks as well as the reputation risks, the Group constantly monitors any changes in laws or regulations and global trends on climate change to avoid cost increments, non-compliance fines or reputational risks due to delayed response.

B. SOCIAL

B.1 Employment

The Group recognizes employees as its most significant asset. To ensure effective human resource management, we have documented formal procedures in the Employee Handbook. These procedures encompass different aspects, including recruitment, promotion and dismissal, remuneration and benefits, diversity and equal opportunities. By establishing these procedures, we aim to provide standardized labor employment management while safeguarding the legitimate interests of every employee. Additionally, the Group is committed to prioritizing the occupational health and safety of its employees.

The Group strictly complies with the relevant laws and regulations in Hong Kong and PRC, including but not limited to the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China and the Hong Kong Employment Ordinance.

During the Reporting Period, the Group was not aware of any material non-compliance with any relevant laws and regulations in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare, that would have a significant impact on the Group.

Recruitment, Promotion and Dismissal

Promotions and dismissals within the Group are carried out on a fair and equal opportunity basis. Employee promotions are reviewed annually, considering objective performance indicators. Supervisors engage in effective two-way communication with employees, discussing their performance and facilitating advancement. Regular performance appraisals are conducted to evaluate employees' work performance, capabilities, and potential for progress, laying the foundation for future promotions and training. The Group encourages internal promotion to provide employees with additional opportunities for personal and professional development. The Group strictly prohibits unreasonable dismissals under any circumstances. If necessary, dismissals are based on reasonable and lawful grounds, aligned with the Group's internal policies.

Environmental, Social and Governance Report

Compensation and Benefits

Equitable remuneration and benefits contribute to employee satisfaction, team morale and overall performance. The Group offers an extensive and competitive package of remuneration and benefits, and it reviews its package in a timely manner in response to market changes. In PRC, the Group offers its employees the Five Social Insurance and One Housing Fund as a mandatory benefit, while in Hong Kong, the Group provides contributions to the Mandatory Provident Fund (“MPF”) for its employees. It offers non-statutory benefits as additional welfare to employees, such as performance bonus, overtime pay, full attendance award, related subsidies, and different bonuses.

In addition to the remuneration package, there is an assortment of welfare offered by the Group. The benefit system of the Group is divided into three parts, which are statutory benefits, caring benefits and incentive benefits. Also, the Group will organize football games and matches on a regular basis as a way of promoting a healthy work life balance.

| STATUTORY BENEFITS | CARING BENEFITS | INCENTIVE BENEFITS |
|---|--|---|
| <ul style="list-style-type: none">• Five social insurances and one housing fund for employees in the PRC• MPF Scheme for employees in Hong Kong• All statutory holidays | <ul style="list-style-type: none">• Lunch allowance• High-temperature allowance• Free accommodation• Paid annual leave, maternity leave, paternity leave, marriage leave, funeral leave, and sick leave | <ul style="list-style-type: none">• Wage for seniority• Long service allowance• Performance based salary• Year-end bonus |

Equal Opportunity, Diversity and Anti-Discrimination

The Group is committed to strict compliance with all national and local governmental laws and regulations. We uphold a fair, equitable, and transparent recruitment process, establishing policies that prevent discrimination in recruitment. We strive to provide equal and fair treatment to all employees, encompassing areas such as recruitment, remuneration, training, promotion, dismissal, retirement, and other aspects of employment.

If an employee faces intimidation, bullying, or harassment, including sexual harassment, they are encouraged to report the matter to their designated employee representative or directly to the general manager. The Group takes such complaints seriously and will employ appropriate measures to address and resolve these issues promptly upon receipt of the complaint.

Environmental, Social and Governance Report

Employee Communication Channels

The Group actively recruits and attracts talents and provides fair and competitive compensation. Employees' salaries and year-end bonuses are determined based on qualifications, work performance, performance appraisal results and market trends.

To ensure a fair and transparent process, the Group has established guidelines in the Employee Handbook. It stipulates that employees should report any irregularities or concerns to their supervisors or the Human Resources Department.

As of December 31, 2023, the employee structure is shown below:

| Breakdown of Employees | 2023 | 2022 |
|-------------------------------|-------------|-------------|
| Total | 66 | 63 |
| By Gender | | |
| Male | 40 | 36 |
| Female | 26 | 27 |
| By Age Group | | |
| Below 30 | 9 | 7 |
| 30 to 50 | 46 | 46 |
| Over 50 | 11 | 10 |
| By Employment Type | | |
| Full time | 66 | 63 |
| Part time | 0 | 0 |
| By Geographical Region | | |
| Hong Kong | 3 | 5 |
| China | 63 | 58 |

Environmental, Social and Governance Report

During the Reporting Period, the employee turnover information is as follows:

| Employee turnover rate ¹ | 2023 | 2022 |
|-------------------------------------|--------|--------|
| Overall | 34.85% | 47.62% |
| By Gender² | | |
| Male | 32.50% | 41.67% |
| Female | 38.46% | 55.56% |
| By Age Group | | |
| Under 30 | 55.56% | 71.43% |
| 30 to 50 | 36.96% | 50.00% |
| Over 50 | 9.09% | 20.00% |
| By Geographical Region | | |
| Hong Kong | 0% | 20.00% |
| PRC | 36.51% | 50.00% |

Notes:

1. The overall turnover rate is calculated by dividing the number of employees leaving employment during the reporting period by the number of employees as at the end of the reporting period.
2. The turnover rate by specific category is calculated by dividing the number of employees leaving employment in the specified category during the reporting period by the number of employees as at the end of the reporting period in the specified category.

B.2 Health and Safety

The Group places a high priority on the health and safety of its employees as an integral part of its business management approach. Guided by a people-oriented principle, we are dedicated to creating a healthy, safe, and comfortable working environment for all employees. We have established an occupational health and safety system and obtained the certificate of ISO 45001: 2018 Occupational Health and Safety Management System for Smart Team. As part of the occupational health and safety system, occupational safety and sanitation rules and standards were implemented, meanwhile, employees received regular workplace safety training to increase their awareness of work safety issues.

During the Reporting Period, the Group was not aware of any material non-compliance with health and safety related laws and regulations that would have a significant impact on the Group, including but not limited to the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, and the Occupational Safety and Health Ordinance of Hong Kong.

Environmental, Social and Governance Report

No work-related fatalities happened during the past 3 consecutive years:

| Fiscal Year | Unit | 2023 | 2022 | 2021 |
|------------------------|-------|------|------|------|
| Fatalities due to work | Cases | 0 | 0 | 0 |

| Fiscal Year | Unit | 2023 |
|------------------------------|------|------|
| Lost days due to work injury | Days | 0 |
| Work Injury Rate | % | 0% |

Note: Work injury rate is calculated by number of work-related injury Lost days/(number of Employee x 22 x 12 (working days)) x 100%. The Group has subscribed employees' compensation insurance for all employees, and it has covered the compensation required due to work-related injury.

Safe Working Environment

To foster a work environment free from injuries, the Group mandates safety training for all employees prior to commencing work. We emphasize the importance of strict adherence to safety requirements to safeguard employees from accidents and injuries. Safety guidelines are provided to employees working in third-party manufacturing facilities. Any safety concerns identified by employees must be promptly reported. Additionally, the Group has developed a series of emergency plans and conducts regular fire drills to enhance employees' safety awareness.

B3. Development and Training

Investing in future leaders is essential for ensuring the Group's long-term success and resilience. The Group intends to nurture its talent pipeline to retain high-performers and be equipped with leaders for tomorrow. In view of this, the Group provides them with the right tools and an environment in which they can grow professionally. Employees are continuously motivated to improve and contribute their knowledge and experiences towards shaping the future.

Structured skills development programs are in place across the Group for all employees, who play an integral role in operations. The Group's targeted learning activities aim to address the skills development needs of each core business as well as employees' career development aspirations. The content and structure of its learning programs are continually refreshed to keep pace with market developments and digitalization requirements.

Environmental, Social and Governance Report

During FY2023, the Group provided in total 78 hours of training to approximately 39.39 % (FY2022: 34.92%)¹ of its employee, with an average training time² of approximately 1.18 hours (FY2022: 0.81 hours). The detail is as follows:

| | FY2023 | | | FY2022 | | |
|-----------------------------|--|--|---|--|--|---|
| | % of Trained Employee ³ (%) | Breakdown of Trained Employee ⁴ (%) | Average Training Hours ⁵ (hours) | % of Trained Employee ³ (%) | Breakdown of Trained Employee ⁴ (%) | Average Training Hours ⁵ (hours) |
| By Gender | | | | | | |
| Male | 50.00 | 76.92 | 1.50 | 50.00 | 81.82 | 1.08 |
| Female | 23.08 | 23.08 | 0.69 | 14.81 | 18.18 | 0.44 |
| By Employee Category | | | | | | |
| Senior | 100.00 | 7.69 | 3.00 | 88.89 | 36.36 | 3.00 |
| Middle | 100.00 | 30.77 | 3.00 | 75.00 | 27.28 | 1.25 |
| General Staff | 28.57 | 61.54 | 0.86 | 17.39 | 36.36 | 0.30 |

Notes:

- 1 This percentage is calculated by dividing the total number of employees who took part in training during the reporting period by the total number of employees as at the end of the reporting period.
- 2 The average training hours per employee is calculated by dividing the total number of training hours during the reporting period by the total number of employees as at the end of the reporting period.
- 3 The percentage of trained employees by category is calculated by dividing the number of employees in the specified category who took part in training during the reporting period by the number of employees in the specified category as at the end of the reporting period.
- 4 The breakdown of trained employees by category is calculated by dividing the number of employees in the specified category who took part in training during the reporting period by the total number of employees who took part in training during the reporting period.
- 5 The average training hours by category is calculated by dividing the number of training hours for employees in the specified category during the reporting period by the number of employees in the specified category as at the end of the reporting period.

Environmental, Social and Governance Report

B.4 Labour Standards

Prevention of Child and Forced Labour

The Group has zero tolerance and strictly prohibits the use of child labour and forced labour in our operations. Below measures have been taken to avoid these illegal employment practices.

Prevention of child labour During the recruitment process, the human resources department will verify the applicant's identity documents and ensure that they have reached the minimum age for employment.

Prohibition of forced labour The Group specifies overtime compensation provisions in the Employee Handbook. The Group carefully monitors the employee working time and working schedule to ensure they work voluntarily and freely.

In case of any illegal labour practice is discovered, the Group will stop their employments immediately. An investigation will be carried out subsequently and report the case to the relevant authorities.

During the Reporting Period, the Group was not aware of any material non-compliance with child and forced labour-related laws and regulations, that would have a significant impact on the Group including but not limited to the Employment Ordinance, the Employment of Children Regulations, the Regulations on Prohibition of Child Labor of the People's Republic of China, the Labour Contract Law of the People's Republic of China and Labour Law of the People's Republic of China.

B.5 Supply Chain Management

The Group extends its effective governance to its supply chain. Through the Supplier Code of Conduct, the Group communicates its expectations to suppliers on upholding ethical standards, compliance with law, and avoidance of corruption. The Group has established a supplier selection system which involves the following operational departments:

| PROCUREMENT DEPARTMENT | PRODUCTION DEPARTMENT | FINANCE DEPARTMENT |
|--|--|---|
| <ul style="list-style-type: none">• Select suppliers• Request quotes• Conclude procurement contracts• Reconcile accounts with suppliers• Follow up on deliveries and returns | <ul style="list-style-type: none">• Receive and inspect procured goods according to the purchase order• Handle warehouse return procedures• Manage storage | <ul style="list-style-type: none">• Evaluate procurement contracts• Process accounts• Reconcile accounts with suppliers• Supervise and review business processes• Prepare ageing analysis sheets for payable accounts• Prepare payment plans• Audit and execute payment plans |

Environmental, Social and Governance Report

In the supplier selection process, we conduct a comprehensive evaluation that goes beyond basic supplier information. We consider different factors, including but not limited to delivery schedule, pricing, product quality, possession of necessary licenses and certifications, and compliance with relevant industrial laws, regulations, and standards. Emphasizing product quality as our top priority, we regularly review the performance of our raw material suppliers to ensure that the raw materials supplied meet our quality standards.

Supplier Management

The Group identifies, evaluates, and selects its suppliers based on its needs and requirements, and considers suppliers on factors like quality, pricing, reliability, and overall value. Moreover, identifying environmental and social risks along with supply chain is crucial for ensuring sustainable and responsible business practices. The Group conducts risk evaluation on suppliers by identifying potential environmental and social risks, communicating with suppliers regularly, and conducting site visits and supplier audits. By continuing to monitor and review the suppliers performance, we understand the environmental and social risks associated with our supply chain and work towards mitigating those risks effectively. The Group seeks to leverage its purchasing power in support of sustainable consumption and production by choosing environmentally and socially preferable options.

In 2023, the Group had a total of 53 suppliers, and the following breakdown illustrates their distribution. The Group highly prefers local sourcing to decrease the carbon footprint due to transportation and support local economy.

| Location | No. of Suppliers |
|----------|------------------|
| PRC | 53 |
| Overseas | 0 |

Open and Fair Procurement

The Group upholds principles of openness, fairness, and equity in its procurement process, ensuring no discrimination or preferential treatment towards any suppliers. Only suppliers with a proven track record and no significant breaches of business ethics are selected to work with the Group.

When considering new suppliers, the Group evaluates their qualifications, scale, quality systems, business capabilities, environmental practices, and social responsibility. Stringent anti-corruption measures are integrated throughout the procurement process. Integrity agreements have been implemented with suppliers to regulate their conduct and prevent improper interests during project development.

Green Procurement

The Group aims to foster a virtuous ecosystem comprising customers, enterprises, and suppliers through innovative approaches and transformative changes in the supply chain. Emphasizing sustainable development, the Group is dedicated to local procurement, streamlining turnaround times, and integrating sustainable practices into its business model.

Throughout the procurement process, the Group prioritizes local suppliers and environmentally friendly products and services. By favoring local procurement, the Group seeks to minimize the carbon footprint associated with procurement activities, while simultaneously supporting local economic growth and generating employment opportunities within local communities.

Environmental, Social and Governance Report

B.6 Product Responsibility

The Group monitors product quality through our internal control process and maintains continuous communication with our customers to foster mutual understanding and meet their needs and expectations. Our goal is to understand and anticipate customer requirements, and we are dedicated to continuously enhancing the quality of our products and services.

During the Reporting Period, the Group was not aware of any incidents of non-compliance with related laws and regulations concerning health and safety, advertising, labelling, and privacy matters relating to products and services provided and methods of redress that would have a significant impact on the Group. The relevant laws and regulations include but are not limited to the Trade Descriptions Ordinance, the Copyright Ordinance, the Personal Data (Privacy) Ordinance, and the Law of the People's Republic of China on the Protection of Consumer Rights and Interests, the Product Quality Law of the People's Republic of China, the Patent Law of the People's Republic of China, the Advertising Law of the People's Republic of China.

Quality Assurance

The Group acknowledges the crucial role of attaining and upholding high product quality standards in ensuring the sustainable growth of the Group. One of the Group's subsidiaries, Smart Team has obtained the certificate of ISO 9001:2015 Quality Management System on research, design and sales of textiles. The Group was also accredited with the OEKO-Tex Standard 100, which guaranteed that our products meet the human-ecological requirements for baby clothing.

To maintain high product quality, great emphasis is attached to the quality management. We have established a quality control team led by a manager experienced in the textile industry, who is responsible for ensuring the quality standards of the raw materials, products manufactured by third-party factories at each stage of production processes, as well as our end products. Moreover, standardised technical checklists which prescribed specific technical requirements and guidance have been formulated to these third-party factories. In addition, to ensure that the scheduled production plans are well-executed, representatives from our production control team are assigned to station in the third-party factories to carry out on-site inspection, provide production instructions and guidance, monitor production progress, coordinate day-to-day work, and take immediate actions to remedy defects discovered.

When there is a need to recall or retrieve a specific product or batch of products from the market, our recall procedure involves several steps. Firstly, we will identify the product or batch that needs to be recalled and determines the reason for the recall. Secondly, we notify the appropriate authorities and issue emails to inform customers, retailers, and distributors. Thirdly, the Group establishes a process to retrieve the affected products from the market, working closely with retailers and distributors. Our team will then communicate directly with customers to inform them about the recall and provide instructions for returning or disposing of the product. The Group will investigate the root cause of the issue and implements corrective actions to prevent similar incidents in the future. Finally, throughout the recall procedure, the Group maintains detailed records, including communication with stakeholders and relevant documentation. It is crucial for us to have a well-defined recall procedure in place to ensure the safety and satisfaction of our customers and to comply with relevant regulations and standards.

In the Reporting Period, the Group did not register any significant instances of product or service-related complaints, and there were no recalls of products sold or shipped due to safety and health concern.

Environmental, Social and Governance Report

Research and Development

Maintaining a high product quality standard is of utmost importance to the Group, and we firmly believe that investing effort in research and development is indispensable in achieving this goal. We continuously strive to develop new products and enhance existing ones by leveraging our R&D capabilities to incorporate special features.

To expand our research and development capabilities, the Group has developed a sophisticated research and development team comprising of professional technicians and engineers. We have also built our own physical laboratory, chemical laboratory, and other research centres for research and quality control. In addition, we have established a research centre to cooperate with Donghua University, Toyobo Co., Ltd. and Lenzing Group, which allow us to possess the latest technology in global textile industry. By leveraging our strong capabilities of research and development, we have been recognised as a High and New Technology Enterprise since 2016.

Customer Service and Privacy Protection

The Group prioritizes delivering quality service and ensuring a positive customer experience through standardized service quality management. To minimize customer complaints and potential adverse consequences like product recalls, our sales executives maintain close communication with customers from the ordering stage through delivery. We have established procedures to handle customer feedback and complaints professionally. Our sales executives promptly address inquiries and complaints, aiming to understand the root causes and identify areas for improvement.

In addition to complaint management, the Group places great importance on protecting customer privacy. We are committed to treating customers' personal data with the utmost confidentiality. Strict policies governing the collection and use of customer data are documented in the Employee Handbook. Our employees, regardless of their employment status at the time, are prohibited from disclosing or exploiting any confidential information or customer data. Any employee found to have unauthorizedly shared confidential information with third parties will face disciplinary action.

Protection of Intellectual Property ("IP") Rights

The Group has implemented various measures and policies to safeguard our intellectual property (IP) rights against misuse and leakage. A dedicated team oversees the management and protection of trademarks and patents to prevent infringement. Employees are obligated to sign nondisclosure agreements, which prohibit the disclosure of any trade secrets to third parties. Additionally, we have established data processing agreements with third-party factories to ensure the protection of our IP rights. In the event of any IP infringement, we take immediate action to request the cessation of such activities, and if necessary, further legal measures will be pursued.

Advertising and Labelling

The Group emphasizes the importance of appropriate advertising and compliance in regard to relevant requirements of media advertisements. We promote our products mainly through advertisements, trade shows, and industry exhibitions. We verify all information regarding our products and business before publication of promotion materials or product sales to prevent any false, misleading or deceptive information being publicized.

Environmental, Social and Governance Report

B.7 Anti-Corruption

The Board sets a tone of zero tolerance towards fraud and corruption. The Group's Employee Handbook states guidelines that require employees to comply with all applicable rules on conflicts of interest, insider dealing, anti-competition and anti-corruption. It demands strict adherence from every employee to applicable laws, rules, and regulations in the jurisdictions in which the Group operates.

The Anti-corruption Policy provides guidance for employees on recognizing and avoiding unethical behaviour in a range of business contexts, including procurement of goods and services, accepting and offering corporate gifts or hospitality, and making political or charitable contributions. Any solicitation or acceptance of an advantage, any form of bribery, extortion, fraud, or money laundering are strictly prohibited.

The Group takes preventive measures on anti-corruption and has whistle-blowing procedures maintain integrity, transparency, and accountability of the Group. The Group has established the Fraud Prevention and Anti-corruption System to define appropriate measures in handling conflict of interests, leakage of confidential information, embezzlement of the Group's asset, etc. to comply with relevant laws and regulations. Regular training programs are conducted to educate employees about ethical standards, legal obligations, and consequences of misconduct. These programs raise awareness and promote a culture of integrity within the Group. Effective internal controls are implemented to detect and prevent fraudulent activities. These controls include segregation of duties, financial audits, and regular monitoring of processes and transactions.

During the Reporting Period, the Group was not aware of any material non-compliance with related laws and regulations of bribery, extortion, fraud and money laundering that would have a significant impact on the Group, including but not limited to the Criminal Law of the People's Republic of China, the Company Law of the People's Republic of China, and the Hong Kong's Prevention of Bribery Ordinance and Hong Kong's Anti-Money Laundering and Counter Terrorist Financing Ordinance that would have a significant impact on the Group.

Anti-Corruption Training

The Group provides training to employees on its governance policies at least annually. New joiners receive training as part of their induction programs. During the Reporting Period, the directors and employees were provided with anti-corruption training for a total of 1 hour and the Group was unaware of any non-compliance with the relevant laws and regulations relating to bribery, extortion, fraud and money laundering. There were no concluded legal cases regarding corrupt practices brought against the Group or its employees.

Whistleblowing Policy

The Group encourages its employees and other stakeholders, including customers and suppliers, to raise concerns about suspected improprieties, misconduct, or malpractice. A confidential channel is in place for employees and stakeholders to report any suspected incidents.

Following the guidelines outlined in the Whistleblowing Policy, the Group treats every reported incident with utmost confidentiality and ensures that whistleblowers are protected from unfair dismissal, victimization, or unwarranted disciplinary action. Incidents related to fraud and corruption will be thoroughly investigated.

Environmental, Social and Governance Report

B.8 Community Investment

The Group considers it as a privilege to have the ability to give back to the community. Our main focus is on extending assistance to individuals facing emergencies or affected by natural disasters. Through the formulation of our Community Investment Policy, we are firmly committed to actively engaging in charitable community activities and being an integral part of the community. This policy serves as a guide, setting standards for all employees who wish to support community initiatives on behalf of the Group.

The Group is dedicated to facilitating educational opportunities for marginalized children and assisting underprivileged children in acquiring fundamental literacy and numeracy skills. Since 2018, we have been sponsoring students in Daliang Mountain, Sichuan, covering their living expenses and tuition fees. We aim to empower these children to excel in their education and achieve their academic aspirations. We hope they will be able to utilize their knowledge and skills to make meaningful contributions to the Group in the future.

Environmental, Social and Governance Report

MAJOR APPLICABLE LAWS AND REGULATIONS

| Aspect | Main Applicable Laws and Regulations (Laws of Hong Kong unless otherwise specified) |
|--|---|
| Environment | <ul style="list-style-type: none">• Waste Disposal Ordinance• Water Pollution Control Ordinance• Environmental Protection Law of the People's Republic of China• Prevention and Control of Atmospheric Pollution Law of the People's Republic of China |
| Employment and Labour Standards | <ul style="list-style-type: none">• Employment Ordinance• Mandatory Provident Fund Schemes Ordinance• Labour Law of the People's Republic of China• Labour Contract Law of the People's Republic of China• Social Insurance Law of the People's Republic of China |
| Health and Safety | <ul style="list-style-type: none">• Occupational Safety and Health Ordinance• Prevention and Control of Occupational Diseases Law of the People's Republic of China |
| Product Responsibility | <ul style="list-style-type: none">• Personal Data (Privacy) Ordinance• Trade Descriptions Ordinance• Copyright Ordinance• Protection of Consumer Rights and Interests Law of the People's Republic of China• Patent Law of the People's Republic of China• Product Quality Law of the People's Republic of China• Advertising Law of the People's Republic of China |
| Anti-corruption | <ul style="list-style-type: none">• Prevention of Bribery Ordinance• Anti-Money Laundering and Counter-Terrorist Financing Ordinance• Criminal Law of the People's Republic of China• Company Law of the People's Republic of China |

Environmental, Social and Governance Report

CONTENT INDEX OF APPENDIX C2 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

Subject Areas, Aspects, General Disclosures and KPIs

| Indicators | Description | Section and Remarks |
|--|---|--|
| A. Environmental Aspect A1: Emissions General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. <i>Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations.</i> <i>Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.</i> <i>Hazardous wastes are those defined by national regulations.</i> | Emissions |
| KPI A1.1 | The types of emissions and respective emissions data. | Emissions |
| KPI A1.2 | Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Emissions – Greenhouse Gas Emissions |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Emissions – Waste Management |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Emissions – Waste Management |
| KPI A1.5 | Description of emission target(s) set and steps taken to achieve them. | Environment - 2025 Environmental Targets |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | Emissions – Waste Management |

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs

| Indicators | Description | Section and Remarks |
|---|--|---|
| Aspect A2: Use of Resources | | |
| General Disclosure | Policies on the efficient use of resources, including energy, waste and other raw materials. <i>Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.</i> | Use of Resources |
| KPI A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | Use of Resources – Energy Management |
| KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | Use of Resources – Water Management |
| KPI A2.3 | Description of energy use efficiency target(s) set and steps taken to achieve them. | Use of Resources – Energy Management |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | Use of Resources – Water Management |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | Use of Resources – Use of Packaging Materials |
| Aspect A3: The Environment and Natural Resources | | |
| General Disclosure | Policies on minimizing the issuer's significant impacts on the environment and natural resources. | The Environment and Natural Resources |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | The Environment and Natural Resources – Green Working Environment |
| Aspect A4: Climate Change | | |
| General Disclosure | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | Climate Change |
| KPI A4.1 | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | Climate Change – Physical Risks, Transition Risks |

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs

| Indicators | Description | Section and Remarks |
|--|---|--|
| B. Social | | |
| Employment and Labour Practices | | |
| Aspect B1: Employment | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest Periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | Employment |
| KPI B1.1 | Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region. | Employment |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | Employment |
| Aspect B2: Health and Safety | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | Health and Safety |
| KPI B2.1 | Number and rate of work-related fatalities occurred in each of the past three years including the reporting year. | Health and Safety |
| KPI B2.2 | Lost days due to work injury. | Health and Safety |
| KPI B2.3 | Description of occupational health and safety measures adopted, and how they are implemented and monitored. | Health and Safety – Safe Working Environment |

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs

| Indicators | Description | Section and Remarks |
|--|--|--|
| Aspect B3: Development and Training | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. <i>Note: Training refers to vocational training. It may include internal and external courses paid by the employer.</i> | Development and Training |
| KPI B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | Development and Training |
| KPI B3.2 | The average training hours completed per employee by gender and employee category. | Development and Training |
| Aspect B4: Labour Standards | | |
| General Disclosure | Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | Labour Standards – Prevention of Child and Forced Labour |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | Labour Standards – Prevention of Child and Forced Labour |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | Labour Standards – Prevention of Child and Forced Labour |

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs

| Indicators | Description | Section and Remarks |
|---|--|--|
| Operating Practices | | |
| Aspect B5: Supply Chain Management | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | Supply Chain Management |
| KPI B5.1 | Number of suppliers by geographical region. | Supply Chain Management |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored. | Supply Chain Management – Supplier Management, Open and Fair Procurement |
| KPI B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | Supply Chain Management – Green Procurement |
| KPI B5.4 | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | Supply Chain Management – Green Procurement |
| Aspect B6: Product Responsibility | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provides and methods of redress. | Product Responsibility |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Product Responsibility – Quality Assurance |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with. | Product Responsibility – Quality Assurance, Customer Service, and Privacy Protection |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Product Responsibility – Protection of Intellectual Property (“IP”) Rights |
| KPI B6.4 | Description of quality assurance process and recall procedures. | Product Responsibility – Quality Assurance |
| KPI B6.5 | Description of consumer data protection and privacy policies, and how they are implemented and monitored. | Product Responsibility – Customer Service and Privacy Protection |

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs

| Indicators | Description | Section and Remarks |
|--|--|----------------------|
| Aspect B7: Anti-corruption | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | Anti-Corruption |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting Period and the outcomes of the cases. | Anti-Corruption |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored. | Anti-Corruption |
| KPI B7.3 | Description of anti-corruption training provided to directors and staff. | Anti-Corruption |
| Community | | |
| Aspect B8: Community Investment | | |
| General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities interests. | Community Investment |
| KPI B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | Community Investment |
| KPI B8.2 | Resources contributed (e.g. money or time) to the focus area. | Community Investment |

Independent Auditor's Report



SHINEWING (HK) CPA Limited
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311 Gloucester Road,
Causeway Bay, Hong Kong

信永中和(香港)會計師事務所有限公司
香港銅鑼灣告士打道311號
皇室大廈安達人壽大樓17樓

TO THE MEMBERS OF ST INTERNATIONAL HOLDINGS COMPANY LIMITED
智紡國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of ST International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 82 to 150 which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Valuation of inventories

Refer to note 17 to the consolidated financial statements and the accounting policies on page 102.

The key audit matter

The Group has carrying value of inventories amounted to approximately HK\$22,828,000 representing approximately 14% of the Group's current assets as at 31 December 2023.

Inventories are valued at the lower of cost or net realisable value.

We have identified the estimated write down for inventories as a key audit matter because the assessment of write down for inventories involved significant management judgements and estimates regarding the net realisable value on inventories. Significant auditor's judgement will be involved during the review procedures.

How the matter was addressed in our audit

Our audit procedures were designed to assess the methodology and assumptions used by management in assessing the inventory provisions.

We have reviewed management's identification of slow moving and obsolete inventories, and critically assessed whether appropriate provisions had been established for slow moving and obsolete items. When considering management's assessment, we have also taken into account, the most recent prices achieved on sales across different products and by checking subsequent sales.

We have also assessed the reliability of management's assessment by considering the utilisation or release of previously recorded provisions.

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Expected credit losses of trade receivables

Refer to note 18 to the consolidated financial statements and the accounting policies on pages 105 to 108.

The key audit matter

The Group's trade receivables amounted to approximately HK\$31,513,000 representing approximately 20% of the Group's current assets, as at 31 December 2023.

In general, the credit terms granted by the Group to the customers ranged between 30 to 120 days.

Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.

We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.

How the matter was addressed in our audit

Our audit procedures were designed to challenge the assumptions and critical judgements of the Group's forward-looking expected credit losses model on impairment assessment of trade receivables.

We have assessed the provision matrix used in the model by reference to the historical information together with other external available information. In particular, we have challenged the appropriateness of the default rate of various debtors that have similar loss patterns by taking into account the ageing at year end. We have also challenged the appropriateness of the assumptions used in forward-looking information by comparing credit worthiness of each debtor and macro economy and industry performance and checking historical and subsequent settlement records of and other correspondence with the customers.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ms. Chan Ka Wai.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Chan Ka Wai

Practising Certificate Number: P07328

Hong Kong

28 March 2024

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

| | Notes | 2023 HK\$'000 | 2022 HK\$'000 |
|---|-------|------------------|------------------|
| Revenue | 5 | 109,968 | 101,100 |
| Cost of sales | | (83,792) | (83,447) |
| Gross profit | | 26,176 | 17,653 |
| Other income | 7 | 2,379 | 2,864 |
| Selling and distribution expenses | | (5,115) | (4,078) |
| Administrative and other expenses | | (16,676) | (19,073) |
| Impairment loss on plant and equipment | 15 | – | (6,296) |
| Impairment loss on trade receivables | | (1,589) | (29) |
| Finance costs | 8 | (1,464) | (1,412) |
| Profit (loss) before tax | | 3,711 | (10,371) |
| Income tax expenses | 9 | (1,509) | (654) |
| Profit (loss) for the year | 10 | 2,202 | (11,025) |
| Other comprehensive expense for the year <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Exchange differences arising on translation of foreign operations | | (750) | (12,805) |
| Other comprehensive expense for the year | | (750) | (12,805) |
| Total comprehensive income (expense) for the year | | 1,452 | (23,830) |
| Profit (loss) per share – basic and diluted (<i>HK\$ cents</i>) | 14 | 0.44 | (2.30) |

Consolidated Statement of Financial Position

As at 31 December 2023

| | <i>Notes</i> | 2023 HK\$'000 | 2022 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| Non-current assets | | | |
| Plant and equipment | 15 | 14,279 | 16,265 |
| Deferred tax asset | 23 | 4,019 | 3,771 |
| Right-of-use assets | 16 | 2,196 | 1,490 |
| Goodwill | 30 | 46 | – |
| | | 20,540 | 21,526 |
| Current assets | | | |
| Inventories | 17 | 22,828 | 26,478 |
| Trade receivables | 18 | 31,513 | 16,477 |
| Deposits, prepayments and other receivables | 18 | 20,684 | 24,346 |
| Pledged bank deposits | 20 | 2,759 | 2,799 |
| Bank balances and cash | 20 | 83,491 | 87,057 |
| | | 161,275 | 157,157 |
| Current liabilities | | | |
| Trade payables | 21 | 1,662 | 1,633 |
| Other payables and accruals | 21 | 6,062 | 6,380 |
| Contract liabilities | 19 | 3,746 | 2,518 |
| Lease liabilities | 16 | 763 | 811 |
| Bank borrowings and other loans | 22 | 14,132 | 30,896 |
| Bank overdraft | 22 | 2,994 | 2,299 |
| Tax payable | | 700 | 1,244 |
| | | 30,059 | 45,781 |
| Net current assets | | 131,216 | 111,376 |

Consolidated Statement of Financial Position

As at 31 December 2023

| | <i>Notes</i> | 2023 <i>HK\$'000</i> | <i>2022</i> <i>HK\$'000</i> |
|--------------------------------|--------------|--------------------------------|--------------------------------|
| Non-current liabilities | | | |
| Lease liabilities | 16 | 1,457 | 730 |
| Bank borrowing | 22 | 3,697 | 4,422 |
| | | 5,154 | 5,152 |
| NET ASSETS | | 146,602 | 127,750 |
| Capital and reserves | | | |
| Share capital | 24 | 5,760 | 4,800 |
| Reserves | | 140,842 | 122,950 |
| Total equity | | 146,602 | 127,750 |

The consolidated financial statements on pages 82 to 150 were approved and authorised for issue by the board of directors on 28 March 2024 and are signed on its behalf by:

Mr. Wong Kai Hung, Kelvin
Director

Mr. Li Jian
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

| | Attributable to owners of the Company | | | | | | Total HK\$'000 |
|---|---------------------------------------|------------------------------|--|--|----------------------------------|---|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Capital reserve HK\$'000 (Note a) | Statutory reserve HK\$'000 (Note b) | Retained earnings HK\$'000 | Exchange reserve HK\$'000 (Note c) | |
| At 1 January 2022 | 4,800 | 48,589 | 1,824 | 5,926 | 83,022 | 7,419 | 151,580 |
| Loss for the year | - | - | - | - | (11,025) | - | (11,025) |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | (12,805) | (12,805) |
| Total comprehensive expenses for the year | - | - | - | - | (11,025) | (12,805) | (23,830) |
| At 31 December 2022 and 1 January 2023 | 4,800 | 48,589 | 1,824 | 5,926 | 71,997 | (5,386) | 127,750 |
| Profit for the year | - | - | - | - | 2,202 | - | 2,202 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | (750) | (750) |
| Total comprehensive income for the year | - | - | - | - | 2,202 | (750) | 1,452 |
| Share issued (note 24) | 960 | 16,800 | - | - | - | - | 17,760 |
| Transaction costs on share issued (note 24) | - | (360) | - | - | - | - | (360) |
| At 31 December 2023 | 5,760 | 65,029 | 1,824 | 5,926 | 74,199 | (6,136) | 146,602 |

Notes:

(a) Capital reserve

Capital reserves represents (i) the difference between the consideration for acquisition of non-controlling interest of Dongguan Smart Union Textiles Technology Co., Ltd. (東莞聯兆紡織科技有限公司) ("Smart Union") and the carrying amount of the non-controlling interest, (ii) the contribution from the shareholder due to a deed of waiver dated 23 April 2018 executed by the shareholder and director of the Company, Mr. Wong Kai Hung Kelvin ("Mr. Wong") and a subsidiary of the Company, Smart Team Textiles Technology Limited ("Smart Team"), pursuant to which an outstanding sum in the amount of HK\$2,000,000 owed by Smart Team to Mr. Wong as at 30 April 2018 was irrevocably and unconditionally waived by Mr. Wong and (iii) the nominal value of the share issued to acquire Smart Team; and (iv) the difference between the consideration for the acquisition of the non-controlling interest of Magic Team (Beijing) International Fashion Design Co., Ltd. (幻天(北京)國際服裝設計有限公司) and the carrying amount of the non-controlling interests.

(b) Statutory reserve

According to The People's Republic of China (the "PRC") Company Law, companies in the PRC are required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The statutory reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

(c) Exchange reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss on the disposal of the foreign operations.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Profit (loss) before tax | 3,711 | (10,371) |
| Adjustments for: | | |
| Depreciation of plant and equipment | 2,375 | 2,964 |
| Depreciation of right-of-use assets | 820 | 1,247 |
| Bank interest income | (76) | (77) |
| Finance costs | 1,464 | 1,412 |
| Impairment loss on trade receivables | 1,589 | 29 |
| Impairment loss on plant and equipment | – | 6,296 |
| Write-down of inventories | 450 | 6,088 |
| Loss on disposals of plant and equipment | 42 | – |
| Government grants | (793) | (937) |
| Operating cash flows before movements in working capital | 9,582 | 6,651 |
| Decrease in inventories | 2,842 | 2,449 |
| (Increase) decrease in trade receivables | (16,624) | 236 |
| Decrease in deposits, prepayments and other receivables | 5,154 | 681 |
| Decrease in trade payables | (335) | (1,772) |
| (Decrease) increase in other payables and accruals | (439) | 596 |
| (Decrease) increase in contract liabilities | (598) | 1,385 |
| Cash (used in) generated from operations | (418) | 10,226 |
| PRC income tax refund | – | 96 |
| PRC income tax paid | (2,340) | (507) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | (2,758) | 9,815 |

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| INVESTING ACTIVITIES | | |
| Acquisition of plant and equipment | (709) | (271) |
| Net cash inflow from acquisition of a subsidiary | 273 | – |
| Interest received | 76 | 77 |
| Proceeds from disposal of plant and equipment | 56 | – |
| NET CASH USED IN INVESTING ACTIVITIES | (304) | (194) |
| FINANCING ACTIVITIES | | |
| Government grants received | 793 | 937 |
| Proceeds from bank borrowings | 12,173 | 48,679 |
| Repayment of bank borrowings | (30,629) | (52,678) |
| Repayment of lease liabilities–principal | (846) | (999) |
| Repayment of lease liabilities–interest | (60) | (47) |
| Interest paid | (1,404) | (1,365) |
| Proceeds from other loans | 1,360 | – |
| Proceeds from issuance of shares | 17,760 | – |
| Transaction costs on issuance of shares | (360) | – |
| NET CASH USED IN FINANCING ACTIVITIES | (1,213) | (5,473) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (4,275) | 4,148 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 84,758 | 89,740 |
| Effect of foreign exchange rate changes | 14 | (9,130) |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 80,497 | 84,758 |
| Analysis of Components of Cash and Cash Equivalents: | | |
| Bank balances and cash | 83,491 | 87,057 |
| Bank overdraft | (2,994) | (2,299) |
| | 80,497 | 84,758 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

1. GENERAL INFORMATION

ST International Holdings Company Limited (the “Company”) was incorporated in the Cayman Islands, under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 21 February 2017 and its shares were listed on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 May 2018.

As at 31 December 2022, the parent and the ultimate holding company of the Company is Cosmic Bliss Investments Limited (“Cosmic Bliss”), a company incorporated in the British Virgin Islands. As at 31 December 2023 and as at the date of consolidated financial statements, there was no ultimate parent company of Company upon disposal of the Company’s shares to various third parties.

The address of the registered office and principal place of business of the Company are disclosed in the section headed “Corporate Information” to this report.

The Company is an investment holding company and its principal subsidiaries are principally engaged in (i) sales of functional knitted fabrics, apparel and yarns; and (ii) cloud-based computing and internet traffic services.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company and its Hong Kong subsidiary. Renminbi (“RMB”) is the functional currency of the PRC subsidiaries of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND CHANGES IN OTHER ACCOUNTING POLICIES

In the current year, the Group has applied, for its first time, the following new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are effective for the Group’s financial year beginning 1 January 2023:

| | |
|--|--|
| HKFRS 17 (including the October 2020 and February 2022 amendments to HKFRS 17) | Insurance Contracts |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |
| Amendments to HKAS 8 | Definition of Accounting Estimate |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |
| Amendments to HKAS 12 | International Tax Reform-Pillar Two Model Rules |

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

Impact on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 - Disclosure of Accounting Policies

The amendments to HKAS 1 and HKFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The application of the amendments has had no material impact on the Group’s financial performance and positions, but has affected the disclosures of accounting policies as set out in note 3.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND CHANGES IN OTHER ACCOUNTING POLICIES *(Continued)*

Impact on application of Amendments to HKAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments to HKAS 12 narrow the scope of the initial recognition exemption of deferred tax liabilities and deferred tax assets so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences, such as leases and decommissioning liabilities. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained earnings or other component of equity as appropriate at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

The Group previously applied HKAS 12 requirements to the relevant assets and liabilities separately. Temporary differences on initial recognition of the relevant assets and liabilities are not recognised due to application of the initial recognition exemption. Upon application of the amendments, the Group has recognised a separate deferred tax asset and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

There was no impact on the consolidated statement of financial position because the related deferred tax balances qualify for offsetting under HKAS 12. There was no impact on the opening retained earnings as at 1 January 2022. The key impact on the Group relates to the disclosures of the component of deferred tax assets and liabilities as disclosed in note 23.

New HKICPA guidance on the accounting implications of the abolition of the mandatory provident fund (“MPF”) - long service payment (“LSP”) offsetting mechanism

In June 2022, the Hong Kong SAR Government (the “Government”) gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”), which will come into effect from 1 May 2025 (the “Transition Date”). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to MPF scheme to reduce the LSP in respect of an employee’s service from the Transition Date (the abolition of the “offsetting mechanism”). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee’s monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism.

The Group is considering the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP. Based on the HKICPA guidance, upon the enactment of the Amendment Ordinance in June 2022, these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit applying HKAS19.93(a).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND CHANGES IN OTHER ACCOUNTING POLICIES *(Continued)*

New HKICPA guidance on the accounting implications of the abolition of the mandatory provident fund (“MPF”) - long service payment (“LSP”) offsetting mechanism *(Continued)*

The Group is considering to change its accounting policy in connection with its LSP liability and to apply the above HKICPA guidance retrospectively. There is no material impact on the Group’s results and financial position for the current or prior periods.

Amendments to HKFRSs issued but not yet effective

The Group had not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective.

| | |
|------------------------------------|--|
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback ¹ |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ¹ |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants ¹ |
| Amendments to HKAS 7 and HKFRS 7 | Supplier Finance Arrangements ¹ |
| Amendments to HKAS 21 | Lack of Exchangeability ² |

¹ Effective for annual periods beginning on or after 1 January 2024.

² Effective for annual periods beginning on or after 1 January 2025.

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of these new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The material accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Business combinations

Acquisition of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs incurred to effect a business combination are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in the business combination are recognised and measured in accordance with HKAS 12 *Income Taxes*;
- assets or liabilities related to the acquiree's employee benefit arrangements are recognised and measured in accordance with HKAS 19 *Employee Benefits*;
- liabilities or equity instruments related to share-based payment arrangement of the acquiree or the replacement of the acquiree's share-based payment transactions with the share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments as if the acquired lease was a new lease at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at an amount equal to the lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Revenue from contracts with customers

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- The Group’s performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or
- The Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or services.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Revenue from contracts with customers *(Continued)*

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group recognised revenue from sales of goods and cloud-based computing and internet traffic services.

Sales of goods

Revenue from sales of goods is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of goods).

Cloud-based computing and internet traffic services

The Group provides performance-based cloud-based computing and internet traffic services which allow customers to place promotion materials on applications or other online platforms. Revenue from cloud-based computing and internet traffic services is recognised when relevant specific performance measures are fulfilled.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Leasing

Definition of a lease

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

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its machineries. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When a contract includes both lease and non-lease components, the Group applies HKFRS 15 to allocate the consideration under the contract to each component.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Leasing *(Continued)*

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Leasing (Continued)

The Group as lessee (Continued)

Lease liabilities (Continued)

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated losses and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line in the consolidated statement of financial position. The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

When the Group obtains ownership of the underlying leased assets at the end of the lease term upon exercising purchase options, the carrying amount of the relevant right-of-use asset is transferred to plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits cost

Payments to state managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short term employee benefits

A liability recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Taxation *(Continued)*

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

Current and deferred taxes are recognised in profit or loss.

Research and development expenditure

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Research and development expenditure (Continued)

Subsequent to initial recognition, internally-generated intangible asset is measured on the same basis as intangible assets acquired separately.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its plant and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Cash and cash equivalents

In the consolidated statement of financial position, cash and bank balances comprise cash (i.e. cash on hand and demand deposits) and cash equivalents. Cash equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather for investment or other purposes.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above, net of outstanding bank overdraft.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business for inventories less all estimated costs of completion and costs necessary to make the sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through other comprehensive income ("FVTOCI")) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through other comprehensive income ("FVTOCI").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at amortised cost (debt instruments) (Continued)

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in "Other income" (note 7).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends from investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income".

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime expected credit loss ("ECL") for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Significant increase in credit risk *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 12 months past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities subsequently measured at amortised costs

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Fair value measurement

When measuring fair value except for the Group's leasing transactions, net realisable value of inventories and value in use of plant and equipment and right-of-use assets for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment of trade receivables

The impairment provisions for trade receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, bases on the number of days that an individual receivable is overdue as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss. At 31 December 2023, the carrying amount of trade receivables is approximately HK\$31,513,000 (2022: HK\$16,477,000) and allowance for impairment of trade receivables is approximately HK\$1,646,000 (2022: HK\$67,000).

Estimated write-down for inventories

The management of the Group reviews an ageing analysis of inventories at the end of each reporting period and makes write-down of inventories for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes write-down for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions. As at 31 December 2023, the carrying amount of inventories was approximately HK\$22,828,000 (2022: HK\$26,478,000) and net of accumulated write-down of inventories is HK\$10,740,000 (2022: HK\$10,290,000).

Impairment of prepayments

The management of the Group determines the provision for impairment of prepayments. This estimate is based on the credit history of its suppliers and current market conditions. Management reassesses the provision on a regular basis by reviewing the utilisation of prepayment balance based on past credit history and prior knowledge of supplier insolvency and market volatilities. As at 31 December 2023, the carrying amount of prepayments is approximately HK\$20,246,000 (2022: approximately HK\$23,241,000), no impairment loss has been recognised (2022: nil).

Deferred taxes

As at 31 December 2023, the Group has unused tax losses of approximately HK\$46,150,000 (2022: HK\$40,793,000). No deferred tax asset had been recognised in respect of such losses due to the unpredictability of future profit streams (2022: nil). The realisability of deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which a reversal takes place.

As at 31 December 2023, the Group has deductible temporary differences of HK\$56,225,000 (2022: HK\$54,980,000). As at 31 December 2023, deferred tax asset of HK\$4,019,000 (2022: HK\$3,771,000) have been recognised in respect of approximately HK\$26,782,000 (2022: HK\$25,138,000) of such temporary differences. No deferred tax asset has been recognised in respect of the deductible temporary differences of the remaining deductible temporary difference of approximately HK\$29,443,000 (2022: HK\$29,842,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment of plant and equipment and right-of-use assets

Plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs.

As at 31 December 2023, the carrying amounts of right-of-use assets, plant and equipment, were HK\$2,196,000 and HK\$14,279,000, respectively (2022: HK\$1,490,000 and HK\$16,265,000 respectively).

5. REVENUE

Revenue represents the amounts received and receivable from sales of goods and cloud-based computing and internet traffic services in the normal course of business, net of sales related tax.

Set out below is the disaggregation of the Group's revenue from contracts with customers.

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Revenue from contracts with customers within the scope of HKFRS 15 | | |
| Disaggregated by major products or services line | | |
| – Sales of goods | | |
| – Sales of functional knitted fabrics | 82,314 | 81,981 |
| – Sales of apparel | 15,430 | 13,126 |
| – Sales of yarns | 12,071 | 5,993 |
| | 109,815 | 101,100 |
| – Cloud-based computing and internet traffic services | 153 | – |
| | 109,968 | 101,100 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. REVENUE (Continued)

Disaggregation of revenue by timing of recognition

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--------------------------------------|------------------|------------------|
| Timing of revenue recognition | | |
| At a point in time | 109,968 | 101,100 |

The manufacturing contracts are with an original expected duration of less than one year. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price for the performance obligations that are unsatisfied as at the end of the reporting period.

6. SEGMENT INFORMATION

Information reported to the directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of services provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group. During the year, a new business in cloud-based computing and internet traffic services commenced and the new business segment added.

Specifically, the Group's reportable segments are as follows:

- Sales of functional knitted fabrics, apparel and yarns; and
- Cloud-based computing and internet traffic services.

Segment revenues and results

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

For the year ended 31 December 2023

| | Sales of functional knitted fabrics, apparel and yarns HK\$'000 | Cloud-based computing and internet traffic services HK\$'000 | Total HK\$'000 |
|--------------------------------|--|--|-------------------|
| Segment revenue | 109,815 | 153 | 109,968 |
| Segment profit (loss) | 12,435 | (58) | 12,377 |
| Unallocated income | | | 205 |
| Unallocated corporate expenses | | | (8,713) |
| Unallocated finance costs | | | (158) |
| Profit before taxation | | | 3,711 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

6. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2022

| | Sales of functional knitted fabrics, apparel and yarns HK\$'000 | Cloud-based computing and internet traffic services HK\$'000 | Total HK\$'000 |
|--------------------------------|--|--|-------------------|
| Segment revenue | 101,100 | – | 101,100 |
| Segment loss | (7,826) | – | (7,826) |
| Unallocated income | | | 134 |
| Unallocated corporate expenses | | | (2,607) |
| Unallocated finance costs | | | (72) |
| Loss before taxation | | | (10,371) |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central administration costs, directors' emoluments, other income and finance costs. This is the measure reported to the chief operating decision maker with respect to the resource allocation and performance assessment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

Segment assets

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Sales of functional knitted fabrics, apparel and yarns | 157,817 | 174,436 |
| Cloud-based computing and internet traffic services | 2,249 | – |
| Total segment assets | 160,066 | 174,436 |
| Corporate and other assets | 21,749 | 4,247 |
| Total assets | 181,815 | 178,683 |

Segment liabilities

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Sales of functional knitted fabrics, apparel and yarns | 24,784 | 46,926 |
| Cloud-based computing and internet traffic services | 2,325 | – |
| Total segment liabilities | 27,109 | 46,926 |
| Corporate and other liabilities | 8,104 | 4,007 |
| Total liabilities | 35,213 | 50,933 |

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to operating segments, other than pledged bank deposits, certain plant and equipment, right-of-use assets, deposits, prepayments and other receivables and bank balances and cash; and
- All liabilities are allocated to operating segments, other than bank overdraft, certain other payables and accruals, lease liabilities and bank borrowings and other loans.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

6. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2023

| | Sales of functional knitted fabrics, apparel and yarns HK\$'000 | Cloud-based computing and internet traffic services HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|--|--|---|-------------------------|-------------------|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | |
| Addition to non-current assets | 2,253 | - | - | 2,253 |
| Depreciation of property, plant and equipment | 2,364 | - | 11 | 2,375 |
| Depreciation of right-of-use assets | 460 | - | 360 | 820 |
| Impairment loss on trade receivables | 1,562 | 27 | - | 1,589 |
| Write-down of inventories | 450 | - | - | 450 |
| Loss on disposals of plant and equipment | 42 | - | - | 42 |
| Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets: | | | | |
| Finance costs | 1,306 | - | 158 | 1,464 |
| Income tax expenses | 1,509 | - | - | 1,509 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

6. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2022

| | Sales of functional knitted fabrics, apparel and yarns HK\$'000 | Cloud-based computing and internet traffic services HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|--|--|---|-------------------------|-------------------|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | |
| Addition to non-current assets | 1,155 | – | 122 | 1,277 |
| Depreciation of property, plant and equipment | 2,947 | – | 17 | 2,964 |
| Depreciation of right-of-use assets | 743 | – | 504 | 1,247 |
| Impairment loss on trade receivables | 29 | – | – | 29 |
| Impairment on plant and equipment | 6,296 | – | – | 6,296 |
| Write-down of inventories | 6,088 | – | – | 6,088 |
| Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets: | | | | |
| Finance costs | 1,340 | – | 72 | 1,412 |
| Income tax expenses | 654 | – | – | 654 |

Geographical information

The Group's operations are located in the PRC and Hong Kong.

Information about the Group's revenue is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

The Group is organised into two operating segments and the sales of functional knitted fabrics, apparel and yarns segment is primarily located in the PRC, which accounted for approximately 99.9% and 100% of the total revenue as at 31 December 2023 and 2022. The non-current assets (excluded deferred tax assets) located in the PRC accounted for approximately 97% and 71% of the total non-current assets as at 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

6. SEGMENT INFORMATION (Continued)

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group are as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-------------------------|------------------|------------------|
| Customer A ¹ | 28,119 | 25,940 |
| Customer B ¹ | 23,200 | 23,211 |
| Customer C ¹ | 13,909 | 11,487 |

¹ Revenue from Sales of functional knitted fabrics, apparel and yarns segment.

7. OTHER INCOME

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--------------------------|------------------|------------------|
| Bank interest income | 76 | 77 |
| Government grants (note) | 793 | 937 |
| Rental income | 1,408 | 1,461 |
| Net exchange gain | 12 | – |
| Sundry income | 90 | 389 |
| | 2,379 | 2,864 |

Note:

Government grants of approximately HK\$793,000 (2022: HK\$937,000) have been received by the subsidiaries in the PRC for the year ended 31 December 2023. The amounts have been included in other income for the year ended 31 December 2023 and 2022. There were no unfulfilled conditions or contingencies related to these grants.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

8. FINANCE COSTS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------|------------------|------------------|
| Interests on: | | |
| – Bank borrowings | 1,404 | 1,365 |
| – Lease liabilities | 60 | 47 |
| | 1,464 | 1,412 |

9. INCOME TAX EXPENSES

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--------------------------------------|------------------|------------------|
| PRC Enterprise Income Tax (“EIT”) | | |
| – Current tax | 1,912 | 899 |
| – Overprovision in prior years | (101) | (192) |
| | 1,811 | 707 |
| Deferred taxation (<i>note 23</i>) | (302) | (53) |
| | 1,509 | 654 |

Hong Kong Profits Tax was calculated at 16.5% (2022: 16.5%) of the estimated assessable profits for the year ended 31 December 2023 and 2022. No provision for Hong Kong Profits Tax has been made as there are no assessable profits for the years ended 31 December 2023 and 2022.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

One of the Group’s subsidiaries established in the PRC is recognised as a High and New Technology Enterprise (“HNTE”) which has been granted tax concessions by the PRC tax bureau and is entitled to PRC EIT at concessionary rate of 15%.

Two of the Group’s subsidiaries registered in the PRC is qualified under the Notice of Comprehensive Tax Relief for Small and Micro Enterprises recognised as a small and low profit enterprise which has been granted tax concession by PRC tax bureau and is entitled to PRC enterprise income tax at concessionary rate of 5% for the first portion of less than RMB1 million taxable income and 10% for the second portion of more than RMB1 million but less than 3 million taxable income during the reporting period.

Pursuant to the rules and regulation of the British Virgin Islands (“BVI”) and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

9. INCOME TAX EXPENSES (Continued)

The income tax expense can be reconciled to the profit (loss) before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Profit (loss) before tax | 3,711 | (10,371) |
| Tax at the applicable tax rate at 25% (2022: 25%) | 928 | (2,593) |
| Tax effect of preferential tax rate | (1,279) | (117) |
| Tax effect of super deduction of research and development expenses | (328) | (437) |
| Tax effect of income not taxable for tax purpose | (35) | (51) |
| Tax effect of expense not deductible for tax purposes | 886 | 439 |
| Overprovision in respect of prior years | (101) | (192) |
| Tax effect of tax losses not recognised | 943 | 1,892 |
| Tax effect of deductible temporary difference not recognised | 4 | 7 |
| Reversal of tax losses previously recognised | – | 1,103 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 491 | 603 |
| Income tax expense for the year | 1,509 | 654 |

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2021 onwards, enterprises engaging in research and development activities are entitled to claim 200% (2022: 200%) of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for relevant periods ended.

Details of the deferred taxation are set out in note 23.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

10. PROFIT (LOSS) FOR THE YEAR

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| (Profit) loss for the year has been arrived at after charging/ (crediting): | | |
| Directors' emoluments (<i>note 11</i>) | 3,836 | 3,462 |
| Salaries, allowances and other benefits (excluding directors' emoluments) | 9,462 | 11,409 |
| Contributions to retirement benefits scheme (excluding directors' emoluments) | 770 | 820 |
| Total staff costs | 14,068 | 15,691 |
| Auditor's remuneration | 615 | 615 |
| Depreciation of plant and equipment | 2,375 | 2,964 |
| Depreciation of right-of-use assets | 820 | 1,247 |
| Research and development costs recognised as an expense (<i>note</i>) | 2,641 | 3,274 |
| Cost of inventories recognised as an expense | 79,010 | 71,978 |
| Write-down of inventories | 450 | 6,088 |
| Expenses relating to short-term leases | 12 | 61 |
| Net foreign exchange (gain) loss | (12) | 229 |

Note:

The research and development expenses disclosed here excluded salaries, allowances and other benefits of approximately HK\$3,143,000 (2022: HK\$2,605,000), and contributions to retirement benefits scheme of approximately HK\$233,000 (2022: HK\$133,000) for the year ended 31 December 2023 which had been included in salaries, allowances and other benefits disclosed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 9 (2022: 6) directors and the chief executive were as follows:

| | Year ended 31 December 2023 | | | | Total HK\$'000 |
|--------------------------------------|-----------------------------|--|--------------------------------------|--|-------------------|
| | Fees HK\$'000 | Salaries, allowances and benefits in kind Note (a) HK\$'000 | Discretionary bonuses HK\$'000 | Retirement benefit scheme contributions Note (a) HK\$'000 | |
| Executive directors: | | | | | |
| Mr. Wong | - | 1,440 | - | 18 | 1,458 |
| Mr. Xi Bin (Note i) | - | 1,472 | - | 37 | 1,509 |
| Mr. Li Jian (Note ii) | - | 240 | - | - | 240 |
| Mr. Chen simon Guomin (Note iii) | - | 160 | - | - | 160 |
| | - | 3,312 | - | 55 | 3,367 |
| Non-executive director: | | | | | |
| Mr. Hung Yuk Miu | - | 117 | - | - | 117 |
| | - | 117 | - | - | 117 |
| Independent non-executive directors: | | | | | |
| Mr. Ng Wing Heng, Henry | 120 | - | - | - | 120 |
| Mr. Sze Irons (Note iv) | 112 | - | - | - | 112 |
| Mr. Fong Kin Tat | 120 | - | - | - | 120 |
| Dr. Chan Yee Wah (Note v) | - | - | - | - | - |
| | 352 | - | - | - | 352 |
| | 352 | 3,429 | - | 55 | 3,836 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

| | Year ended 31 December 2022 | | | | Total HK\$'000 |
|--------------------------------------|-----------------------------|--|--------------------------------------|--|-------------------|
| | Fees HK\$'000 | Salaries, allowances and benefits in kind Note (a) HK\$'000 | Discretionary bonuses HK\$'000 | Retirement benefit scheme contributions Note (a) HK\$'000 | |
| Executive directors: | | | | | |
| Mr. Wong | – | 1,440 | – | 18 | 1,458 |
| Mr. Xi Bin | – | 1,486 | – | 36 | 1,522 |
| | – | 2,926 | – | 54 | 2,980 |
| Non-executive director: | | | | | |
| Mr. Hung Yuk Miu | 122 | – | – | – | 122 |
| | 122 | – | – | – | 122 |
| Independent non-executive directors: | | | | | |
| Mr. Ng Wing Heng, Henry | 120 | – | – | – | 120 |
| Mr. Fong Kin Tat | 120 | – | – | – | 120 |
| Mr. Sze Irons | 120 | – | – | – | 120 |
| | 360 | – | – | – | 360 |
| Total | 482 | 2,926 | – | 54 | 3,462 |

Notes:

- (a) Salary and retirement benefit scheme contributions paid to a director is generally an emolument paid to or receivables in respect of that person's other services in connection with management of the affairs of the Company or its subsidiary undertakings.
- (b) Mr. Xi Bin is the chief executive officer of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive officer.
- (c) Neither the chief executive officer nor any of the directors waived any emoluments during the years ended 31 December 2023 and 2022.
- (d) No emoluments were paid or receivable in respect of any director accepting office as a director during the years ended 31 December 2023 and 2022.
- (e) No amount was paid by the Group to any director or receivable by any director as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2023 and 2022.
 - (i) Resigned on 5 December 2023 as director
 - (ii) Appointed on 28 August 2023
 - (iii) Appointed on 14 November 2023
 - (iv) Resigned on 5 December 2023
 - (v) Appointed on 5 December 2023

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

| Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiaries undertaking | | Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of affairs of the Company or its subsidiaries undertaking | | Total | |
|---|------------------|--|------------------|------------------|------------------|
| 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 |
| 352 | 482 | 3,484 | 2,980 | 3,836 | 3,462 |

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2022: two) were directors and the chief executive officer of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining three (2022: three) individuals were as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Salaries and other allowances | 1,127 | 1,370 |
| Retirement benefit scheme contributions | 41 | 36 |
| | 1,168 | 1,406 |

Their emoluments were within the following bands:

| | Number of individuals | |
|----------------------|-----------------------|------|
| | 2023 | 2022 |
| Nil to HK\$1,000,000 | 3 | 3 |

During the years ended 31 December 2023 and 2022, no emoluments were paid or payable by the Group to the five highest paid individuals as inducements to join or upon joining the Group or as a compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

13. DIVIDENDS

No dividend has been declared by the Company for the years ended 31 December 2023 and 2022, nor has any dividend been proposed since the end of the reporting period.

14. PROFIT (LOSS) PER SHARE

The calculation of the basic and diluted profit (loss) per share attributable to the owners of the Company is based on the following data:

| | 2023 | 2022 |
|--|---------|----------|
| Profit (loss) for the year attributable to owners of the Company (HK\$'000) | 2,202 | (11,025) |
| Weighted average number of ordinary shares in issue ('000) | 497,622 | 480,000 |
| Basic profit (loss) per share (HK cents per share) | 0.44 | (2.30) |

Diluted profit (loss) per share was the same as the basic profit (loss) per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

15. PLANT AND EQUIPMENT

| | Machineries <i>HK\$'000</i> | Office Equipment <i>HK\$'000</i> | Motor Vehicles <i>HK\$'000</i> | Leasehold improvements <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--------------------------------|--|--------------------------------------|--|--------------------------|
| COST | | | | | |
| At 1 January 2022 | 28,457 | 4,587 | 3,892 | 886 | 37,822 |
| Additions for the year | 49 | 181 | – | 41 | 271 |
| Exchange realignment | (2,412) | (387) | (219) | (76) | (3,094) |
| At 31 December 2022 and 1 January 2023 | 26,094 | 4,381 | 3,673 | 851 | 34,999 |
| Additions for the year | – | 34 | 675 | – | 709 |
| Disposals | – | – | (1,006) | – | (1,006) |
| Exchange realignment | (371) | (61) | (33) | (12) | (477) |
| At 31 December 2023 | 25,723 | 4,354 | 3,309 | 839 | 34,225 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | |
| At 1 January 2022 | 5,094 | 2,632 | 2,684 | 157 | 10,567 |
| Charge for the year | 1,794 | 354 | 456 | 360 | 2,964 |
| Impairment losses recognised in profit or loss | 6,296 | – | – | – | 6,296 |
| Exchange realignment | (708) | (228) | (131) | (26) | (1,093) |
| At 31 December 2022 and 1 January 2023 | 12,476 | 2,758 | 3,009 | 491 | 18,734 |
| Charge for the year | 1,203 | 380 | 476 | 316 | 2,375 |
| Disposals | – | – | (908) | – | (908) |
| Exchange realignment | (184) | (40) | (22) | (9) | (255) |
| At 31 December 2023 | 13,495 | 3,098 | 2,555 | 798 | 19,946 |
| CARRYING VALUES | | | | | |
| At 31 December 2023 | 12,228 | 1,256 | 754 | 41 | 14,279 |
| At 31 December 2022 | 13,618 | 1,623 | 664 | 360 | 16,265 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

15. PLANT AND EQUIPMENT (Continued)

The above items of plant and equipment are depreciated on a straight-line basis over their estimated useful lives, taking account into their estimated residual values as follow:

| | |
|------------------------|---------------------|
| Leasehold improvements | Over the lease term |
| Machineries | 10 to 15 years |
| Office equipment | 2 to 5 years |
| Motor vehicles | 3 years |

The Group leased out a machinery under operating leases with cost of approximately HK\$17,933,000 (2022: HK\$18,192,000) and accumulated depreciation and impairment losses of approximately HK\$9,681,000 (2022: HK\$8,608,000). The lease runs for a period of 1 year. Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future period are approximately HK\$1,690,000 (2022: HK\$1,601,000) in the coming year.

During the year ended 31 December 2022, the directors of the Company conducted a review of the Group's plant and equipment and determined that machineries were impaired, due to the fact that the amount of value-in-use is lower than its net book value. The review led to the recognition of an impairment loss of HK\$6,296,000, which has been recognised in profit or loss. The recoverable amount of the relevant asset has been determined on the basis of its value-in-use. The discount rate used in measuring value-in-use was 7% (2023: 7.6%). No impairment loss was recognised in 2023 as the amount of value-in-use is more than its net book value.

16. LEASES

(i) Right-of-use assets

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-------------------|------------------|------------------|
| Leased properties | 2,196 | 1,490 |

The Group has lease arrangements for its leased properties. The lease terms are generally ranged from two to five years.

Right-of-use assets included HK\$1,802,000 (2022: HK\$898,000) of leased properties located in the PRC and HK\$394,000 (2022: HK\$592,000) of lease properties located in Hong Kong.

Additions to the right-of-use assets for the year ended 31 December 2023 amounted to HK\$1,544,000 (2022: HK\$1,006,000), due to the newly leased properties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

16. LEASES (Continued)

(ii) Lease liabilities

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-------------|------------------|------------------|
| Non-current | 1,457 | 730 |
| Current | 763 | 811 |
| | 2,220 | 1,541 |

The remaining contractual maturities of the Group's lease liabilities are shown as follow.

| | 31/12/2023 HK\$'000 | 31/12/2022 HK\$'000 |
|---|------------------------|------------------------|
| Within one year | 763 | 811 |
| After one year but within two years | 803 | 271 |
| After two years but within five years | 654 | 459 |
| | 2,220 | 1,541 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | (763) | (811) |
| Amount due for settlement after 12 months | 1,457 | 730 |

During the year ended 31 December 2023, the Group entered into three (2022: two) new lease agreements in respect of renting properties and recognised lease liabilities in aggregate of HK\$1,544,000 (2022: HK\$1,006,000).

(iii) Amounts charged in profit or loss

| | 31/12/2023 HK\$'000 | 31/12/2022 HK\$'000 |
|---|------------------------|------------------------|
| Depreciation expense on right-of-use assets | 820 | 1,247 |
| Expense relating to short-term leases | 12 | 61 |
| Interest expense on lease liabilities | 60 | 47 |

(iv) Others

As at 31 December 2023 and 2022, all committed lease agreements have been commenced.

During the year ended 31 December 2023, the total cash outflow for leases amount to HK\$918,000 (2022: HK\$1,107,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

17. INVENTORIES

| | 2023 HK\$'000 | 2022 HK\$'000 |
|------------------|------------------|------------------|
| Work in progress | 20,842 | 23,003 |
| Finished goods | 1,986 | 3,475 |
| | 22,828 | 26,478 |

18. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Gross amount of total trade receivables arising from contracts with customer | 33,159 | 16,544 |
| Less: allowance for impairment of trade receivables | (1,646) | (67) |
| | 31,513 | 16,477 |
| Other receivables | 231 | 776 |
| Prepayments | 20,246 | 23,241 |
| Deposits | 207 | 329 |
| | 20,684 | 24,346 |

The Group allows credit period of 30 to 120 days to its trade customers. The Group does not hold any collateral over its trade receivables. The following is an aged analysis of the trade receivables net of allowance for impairment of trade receivables, presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

| | 2023 HK\$'000 | 2022 HK\$'000 |
|------------------|------------------|------------------|
| Within 30 days | 19,680 | 15,152 |
| 31 to 60 days | 3,589 | 168 |
| 61 to 90 days | 4,525 | 1,157 |
| 91 to 180 days | 3,145 | - |
| 181 to 365 days | 9 | - |
| More than 1 year | 565 | - |
| Total | 31,513 | 16,477 |

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

18. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group recognised lifetime ECL for trade receivables based on individually significant customer or the ageing of customers by due date collectively that included as follows:

| As at 31 December 2023 | Weighted average expected loss rate % | Gross carrying amount HK\$'000 | Loss allowance HK\$'000 |
|------------------------|---------------------------------------|--------------------------------|-------------------------|
| Within 1 year | 2.36% | 31,693 | 745 |
| More than 1 year | 61.43% | 1,466 | 901 |
| | | 33,159 | 1,646 |

| As at 31 December 2022 | Weighted average expected loss rate % | Gross carrying amount HK\$'000 | Loss allowance HK\$'000 |
|------------------------|---------------------------------------|--------------------------------|-------------------------|
| Within 1 year | 0.40% | 16,544 | 67 |

Movements of the provision for impairment loss on trade receivables are as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-------------------------------------|------------------|------------------|
| At the beginning of the year | 67 | 47,038 |
| Impairment loss for the year | 1,589 | 29 |
| Amount written off as uncollectible | – | (43,014) |
| Exchange realignment | (10) | (3,986) |
| At the end of the year | 1,646 | 67 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

19. CONTRACT LIABILITIES

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------------------|------------------|------------------|
| Current Contract liabilities | 3,746 | 2,518 |

Contract liabilities include prepayments received for the sales of goods and advances from customers for the cloud-based computing and internet traffic services.

For certain customers from sales of goods, the Group receives range from 20% to 30% of the contract values as deposits from customers when they sign the sale and purchase agreements.

Certain contract liabilities were mainly in connection with the advanced cash receipts for the cloud-based computing and internet traffic services.

The significant increase in contract liabilities in 2023 is the result of the commencement of the cloud-based computing and internet traffic services business during the year ended 31 December 2023.

Revenue recognised during the year ended 31 December 2023 that was included in the contract liabilities at the beginning of the year is HK\$2,518,000 (2022: HK\$1,289,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in the previous year.

20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances represented short-term deposits with a maturity of three months or less. At 31 December 2023, bank balances carried at prevailing market rates range from 0.01% to 0.20% per annum (2022: from 0.01% to 0.25% per annum). At 31 December 2023, the pledged bank deposits carry fixed interest rate at 0.40% per annum (2022: 0.40% per annum). The pledged bank deposits will be released upon the settlement of relevant bank borrowings and termination of bank facilities.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group and also pledged to secure short-term bank borrowings and therefore are classified as current assets.

Included in the pledged bank deposits and bank balances and cash are the following amounts denominated in foreign currencies other than the functional currency of relevant group entities:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-----|------------------|------------------|
| RMB | 2,759 | 2,799 |
| USD | – | 10 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

21. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|------------------------------|------------------|------------------|
| Trade payables | 1,662 | 1,633 |
| Other payables and accruals: | | |
| Accrued expenses | 2,336 | 1,448 |
| Other payables | 319 | 236 |
| Other tax payables | 3,407 | 4,696 |
| | 6,062 | 6,380 |

The following is an aged analysis of trade payables presented based on invoice dates at the end of the reporting period.

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--------------------|------------------|------------------|
| Within 30 days | 1,296 | 833 |
| 31 to 60 days | 324 | 19 |
| 61 to 90 days | 10 | 10 |
| 91 to 180 days | 17 | 222 |
| More than 180 days | 15 | 549 |
| Total | 1,662 | 1,633 |

The credit period granted is ranging from 30 to 90 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

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For the year ended 31 December 2023

22. BANK OVERDRAFT/BORROWINGS AND OTHER LOANS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Bank overdraft (notes b & c) | 2,994 | 2,299 |
| Unsecured bank borrowings (notes b & c) | 16,469 | 35,318 |
| | 19,463 | 37,617 |
| Other loans (note c) | 1,360 | – |

(a) Unsecured bank borrowings and other loans:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Amounts shown under current liabilities | 14,132 | 30,896 |
| Amounts shown under non-current liabilities | 3,697 | 4,422 |
| | 17,829 | 35,318 |

(b) Carrying amounts of bank borrowing repayable (based on scheduled repayment dates set out in loan agreements):

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------------------------|------------------|------------------|
| On demand and within one year | 12,772 | 30,896 |
| After one year but within two years | 3,697 | 672 |
| After two years but within five years | – | 3,750 |
| | 16,469 | 35,318 |

All bank borrowings outstanding as at 31 December 2023 and 2022 were guaranteed by Mr. Xi Bin, a director of the Company and his spouse.

The amounts of banking facilities utilisation at 31 December 2023 and 2022 are set out as following:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Facilities amount | 39,795 | 62,109 |
| Utilisation – Unsecured bank borrowings | 19,463 | 37,617 |
| Unutilised facility amount | 20,332 | 24,492 |

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For the year ended 31 December 2023

22. BANK OVERDRAFT/BORROWINGS AND OTHER LOANS (Continued)

- (c) As at 31 December 2023 and 2022, there was interest-bearing borrowing carried interest at variable market interest rate based on PRC Loan Prime Rate plus 0.4% per annum and interest-bearing borrowings carried interest at fixed interest rate as follows:

| | 2023 | 2022 |
|--------------------------|-----------------|-----------------|
| Variable-rate borrowings | 3.50% to 8.001% | 4.05% to 6.375% |
| Fixed-rate borrowings | N/A | 3.8% to 4.25% |

- (d) Included in other loans are interest-free loan of HK\$360,000 received from Mr. Li Jian on 29 September 2023 and interest-free loan of HK\$1,000,000 received from Mr. Wong on 27 October 2023, who are both directors and shareholders of the Company. The loans are repayable in full within one year after the end of the reporting period.

23. DEFERRED TAXATION

The following is the analysis of the deferred tax asset:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--------------------|------------------|------------------|
| Deferred tax asset | 4,019 | 3,771 |

The following are the components of deferred tax liability (assets) recognised and movements thereon during the current and prior years:

| | Right-of-use assets HK\$'000 | Lease liabilities HK\$'000 | Provision of inventories HK\$'000 | Impairment loss on plant and equipment HK\$'000 | Impairment loss on trade receivables HK\$'000 | Tax losses HK\$'000 | Total HK\$'000 |
|---|------------------------------------|----------------------------------|---|---|--|------------------------|-------------------|
| At 1 January 2022 | - | - | - | - | (2,900) | (1,110) | (4,010) |
| Effect of application of amendments to HKAS 12 | 187 | (187) | - | - | - | - | - |
| At 1 January 2022 (restated) | 187 | (187) | - | - | (2,900) | (1,110) | (4,010) |
| Charge (credit) to profit or loss (note 9) | 23 | (23) | (212) | (944) | - | 1,103 | (53) |
| Exchange differences | - | - | 7 | 32 | 246 | 7 | 292 |
| At 31 December 2022 and 1 January 2023 | 210 | (210) | (205) | (912) | (2,654) | - | (3,771) |
| Charge (credit) to profit or loss (note 9) | 57 | (57) | (68) | - | (234) | - | (302) |
| Exchange differences | - | - | 4 | 11 | 39 | - | 54 |
| At 31 December 2023 | 267 | (267) | (269) | (901) | (2,849) | - | (4,019) |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

23. DEFERRED TAXATION (Continued)

Deferred tax assets not recognised

As at 31 December 2023, the Group has unused tax losses of approximately HK\$46,150,000 (2022: HK\$40,793,000). No deferred tax asset had been recognised in respect of such losses due to the unpredictability of future profit streams (2022: nil). At the end of the reporting period, the estimated unused tax losses attributable to subsidiaries in the PRC amounted to HK\$4,783,000 (2022: HK\$4,272,000) that will expire within five years from the end of respective reporting period. The remaining tax losses will be carried forward indefinitely.

As at 31 December 2023, the Group has deductible temporary differences of HK\$56,225,000 (2022: HK\$54,980,000). As at 31 December 2023, deferred tax asset of HK\$4,019,000 (2022: HK\$3,771,000) have been recognised in respect of approximately HK\$26,782,000 (2022: HK\$25,138,000) of such temporary differences. No deferred tax asset has been recognised in respect of the deductible temporary differences of the remaining deductible temporary difference of approximately HK\$29,443,000 (2022: HK\$29,842,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

24. SHARE CAPITAL

| | Number of ordinary shares '000 | Share capital HK\$'000 |
|--|--------------------------------------|---------------------------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised | | |
| As at 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023 | 10,000,000 | 100,000 |
| Issued and fully paid | | |
| As at 1 January 2021, 31 December 2022 and 1 January 2022 | 480,000 | 4,800 |
| Shares issued (note) | 96,000 | 960 |
| As at 31 December 2023 | 576,000 | 5,760 |

Note:

During the year ended 31 December 2023, the Company issued an aggregate of 96,000,000 ordinary shares (the "Placing Shares") upon completion the relevant placing (the "Placing") on 25 October 2023 at the Placing Price of HK\$0.185 per Placing Share to the independent placees. The gross proceeds from the Placing were HK\$17.76 million and the net proceeds were approximately HK\$17.40 million after deducting the commission and other expenses of the Placing of approximately HK\$360,000. Details of the Placing were set out in the Company's announcements dated 11 October 2023 and 25 October 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

25. RETIREMENT BENEFITS PLAN

Hong Kong

The Group operates the MPF under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. Under the MPF, the Group is required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the scheme vest immediately. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs, capped at HK\$1,500 per month, to the MPF Scheme, in which the contribution is matched by the employee.

PRC

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees, subject to a certain ceiling. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remained unchanged from prior year.

The capital structure of the Group consists of bank borrowings and other loans, bank overdraft, pledged bank deposits, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Group reviews its capital structure periodically and considers cost of capital and risks associated with each class of capital. The Group may balance its overall capital structure through new share issues and may also consider the raise of new borrowings as additional capital.

The Group also endeavours to ensure the steady and reliable cash flows from the normal business operation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

| | At 31 December | |
|--|------------------|------------------|
| | 2023 HK\$'000 | 2022 HK\$'000 |
| Financial assets | | |
| Financial asset at amortised cost (including bank balances and cash) | 118,201 | 107,438 |
| Financial liabilities | | |
| At amortised cost | 25,140 | 40,934 |

b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, pledged bank deposits, bank balances and cash, trade payables, other payables and accruals, other loans, bank borrowings and bank overdraft.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group's operational activities are mainly denominated in RMB. The Group is exposed to foreign currency risk primarily arising from the sales and purchases which give rise to receivables and payables denominated in foreign currencies and bank deposits denominated in foreign currencies other than the functional currency of relevant group entity. The Group currently does not have a foreign currency hedging policy. However, the management of the Company closely monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's monetary assets that are denominated in currencies other than the functional currencies of relevant group entities at the end of the reporting periods are as follows:

| | Asset | |
|-----|------------------|------------------|
| | 2023 HK\$'000 | 2022 HK\$'000 |
| RMB | 2,759 | 2,799 |
| USD | – | 10 |

Foreign currency sensitivity

The following table details the Group's sensitivity to a 5% changes in HK\$ against the foreign currency. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in post-tax profit (2022: decrease in post-tax loss) where HK\$ weakening against RMB. For a 5% strengthening against the respective currency, there would be an equal and opposite impact on the post-tax profit (2022: post-tax loss).

The management of the Company considered that since the currency between HK\$ and USD is pegged under linked-exchange rate system, the effect of change is not significant, accordingly, it is not included in this sensitivity analysis.

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Increase in post-tax profit (2022: decrease in the post-tax loss) | 115 | 117 |

This is mainly attributable to the exposure for RMB pledged bank deposits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to pledged bank deposits, bank balances (note 20), bank borrowings and bank overdraft (note 22). The Group currently does not have any interest rate hedging policy. It is the Group's policy to keep pledged bank deposits, bank balances and bank borrowings at floating rate as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the prevailing market rates on bank balances, variable-rate bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2022: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase by approximately HK\$240,000 (2022: post-tax loss would increase/decrease by approximately HK\$196,000) for the year ended 31 December 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2023, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of our Group mainly arises from trade receivables, deposits and other receivables, pledged bank deposits and bank balances. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For deposits and other receivables, pledged bank deposits and bank balances, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Management considered deposits and other receivables to be low credit risk and thus the impairment provision recognised during the year was limited to 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Credit risk (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the debtor

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its management to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

| Category | Description | Basis for recognising ECL |
|------------|---|------------------------------------|
| Performing | For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1) | 12-month ECL |
| Doubtful | For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2) | Lifetime ECL – not credit impaired |
| Default | Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3) | Lifetime ECL – credit impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

The tables below detail the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades.

| | Internal credit rating | 12-month or lifetime ECL | 31 December 2023 | | | 31 December 2022 | | |
|--------------------------------|------------------------|--------------------------|-----------------------|----------------|---------------------|-----------------------|----------------|---------------------|
| | | | Gross carrying amount | Loss allowance | Net carrying amount | Gross carrying amount | Loss allowance | Net carrying amount |
| | | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Trade receivables | N/A | Lifetime ECL | 33,159 | (1,646) | 31,513 | 16,544 | (67) | 16,477 |
| Deposits and other receivables | Performing | 12-month ECL | 438 | - | 438 | 1,105 | - | 1,105 |
| Pledged bank deposits | Performing | 12-month ECL | 2,759 | - | 2,759 | 2,799 | - | 2,799 |
| Bank balances and cash | Performing | 12-month ECL | 83,491 | - | 83,491 | 87,057 | - | 87,057 |

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for approximately 99.6% and 100% of the total trade receivables as at 31 December 2023 and 2022.

As at 31 December 2023 and 2022, the Group has concentration of credit risk as 14% and 29% of the total trade receivables was due from the Group's largest customer while 65% and 83% of the total trade receivables was due from the Group's top five largest customers, respectively.

Liquidity risk

The Group monitors and maintains a level of bank balances and cash deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest cash flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity risk tables

| | Weighted average effective interest rate % | On demand or within one year HK\$'000 | More than one year but less than five years HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|-----------------------------|--|---------------------------------------|--|--|--------------------------|
| At 31 December 2023 | | | | | |
| Trade payables | – | 1,662 | – | 1,662 | 1,662 |
| Other payables and accruals | – | 2,655 | – | 2,655 | 2,655 |
| Other loans | – | 1,360 | – | 1,360 | 1,360 |
| | 3.50% – | | | | |
| Bank borrowings | 8.001% | 13,513 | 3,753 | 17,266 | 16,469 |
| Bank overdraft | 6.625% | 3,192 | – | 3,192 | 2,994 |
| | | 22,382 | 3,753 | 26,135 | 25,140 |
| | 3.50% – | | | | |
| Lease liabilities | 6.375% | 841 | 1,514 | 2,355 | 2,220 |

| | Weighted average effective interest rate % | On demand or within one year HK\$'000 | More than one year but less than five years HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|-----------------------------|--|---------------------------------------|--|--|--------------------------|
| At 31 December 2022 | | | | | |
| Trade payables | – | 1,633 | – | 1,633 | 1,633 |
| Other payables and accruals | – | 1,684 | – | 1,684 | 1,684 |
| | 3.80% – | | | | |
| Bank borrowings | 4.25% | 32,312 | 4,625 | 36,937 | 35,318 |
| Bank overdraft | 6.375% | 2,446 | – | 2,446 | 2,299 |
| | | 38,075 | 4,625 | 42,700 | 40,934 |
| | 3.80% – | | | | |
| Lease liabilities | 6.375% | 850 | 830 | 1,680 | 1,541 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

28. RELATED PARTY TRANSACTIONS

During the years ended 31 December 2023 and 2022, transactions with the following parties are considered to be related parties transactions:

| Name of related party | Relationship with the Group |
|--|--|
| Mr. Wong | Director and Shareholder of the Company |
| Mr. Li Jian | Director and Shareholder of the Company |
| Mr. Xi Bin | Director of the Company until 5 December 2023 and remaining as director of a substantial subsidiary of the Company |
| Mr. Hung Yuk Miu (" Mr. Hung ") | Non-executive Director of the Company |
| Proudy Limited | Wholly owned by Mr. Hung |

- (a) Save as disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2023 and 2022, the Group has entered into transactions with related parties as follows:

| Related party | Nature of transaction | 2023 HK\$'000 | 2022 HK\$'000 |
|----------------|-----------------------|------------------|------------------|
| Proudy Limited | Consultancy services | 120 | 120 |

Each of the above transactions was conducted at terms determined on a basis mutually agreed with the Group and the respective related party.

- (b) Compensation to key management personnel

The key management personnel are the directors of the Company. Details of the remuneration paid to the directors are set out in note 11 to the consolidated financial statements.

- (c) Personal guarantee provided by executive director to secure bank borrowings

Mr. Xi Bin, the executive director, has provided personal guarantee for the bank borrowings with principal amount of approximately HK\$16,469,000 (2022: approximately HK\$35,318,000) for the year ended 31 December 2023.

- (d) Acquisition of a subsidiary

During the year ended 31 December 2023, the Group acquired 100% of the issued share capital of Flowbox Limited ("**Flowbox**"), from Mr. Li Jian, a director and shareholder of the Company. For details, please refer to note 30.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

29. SUBSIDIARIES OF THE GROUP

| Name of subsidiary | Place of incorporation/ operation | Class of shares held | Paid up issued registered ordinary share capital | Proportion of ownership interest held by the Company | | | | Proportion of voting power held by the Company | | Principal activities |
|---|--------------------------------------|----------------------|--|--|------|------------|------|--|------|---|
| | | | | Directly | | Indirectly | | 31 December | | |
| | | | | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | |
| | | | | % | % | % | % | % | % | |
| World Vantage Investments Limited ("World Vantage") | BVI | Ordinary shares | USD1 | 100% | 100% | N/A | N/A | 100% | 100% | Investment holdings |
| Smart Team Textiles Technology Limited ("Smart Team") | Hong Kong | Ordinary shares | HK\$10 | N/A | N/A | 100% | 100% | 100% | 100% | Sales of functional knitted fibres and yarns |
| Guangdong Smart Team Textiles Technology Co., Ltd.** ("Guangdong Smart Team") 廣東兆天紡織科技有限公司 | PRC | Contributed capital | RMB10,000,000 | N/A | N/A | 100% | 100% | 100% | 100% | Sales of functional knitted fabric |
| Dongguan Smart Union Textiles Technology Limited** ("Smart Union") 東莞聯兆紡織科技有限公司 | PRC | Contributed capital | RMB1,000,000 | N/A | N/A | 100% | 100% | 100% | 100% | Sales of functional knitted fabric |
| Magic Team (Beijing) International Fashion Design Co., Ltd.** ("Magic Team") 幻天(北京)國際服裝設計有限公司 | PRC | Contributed capital | RMB500,000 | N/A | N/A | 100% | 100% | 100% | 100% | Design and sales of apparel |
| Cloudpotent Limited ("Cloudpotent") | Hong Kong | Ordinary shares | HK\$10,000 | 100% | N/A | N/A | N/A | 100% | N/A | Cloud-based computing and internet traffic services |
| Flowbox (Note 30) | Hong Kong | Ordinary shares | HK\$10,000 | N/A | N/A | 100% | N/A | 100% | N/A | Cloud-based computing and internet traffic services |

* The English name is for identification only. The official name of the company is in Chinese.

Those subsidiaries are wholly foreign owned enterprises.

None of the subsidiaries had issued any debt securities during both years or at the end of both years.

30. ACQUISITION OF A SUBSIDIARY

On 30 November 2023, the Group acquired 100% of the issued share capital of Flowbox at a consideration of HK\$10,000 from Mr. Li Jian, a director and shareholder of the Company. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK\$46,000. Flowbox is engaged in the cloud-based computing and internet traffic services. Flowbox was acquired so as to continue the expansion of the Group's business.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

30. ACQUISITION OF A SUBSIDIARY (Continued)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | HK\$'000 |
|-----------------------------------|----------|
| Trade receivables | 314 |
| Prepayments and other receivables | 1,802 |
| Bank balance | 283 |
| Trade payables | (386) |
| Other payables and accruals | (192) |
| Contract liabilities | (1,857) |
| | <hr/> |
| Net liabilities | (36) |

The fair value of trade and other receivables at the date of acquisition amounted to HK\$498,000. The gross contractual amounts of those trade and other receivables acquired amounted to HK\$498,000 at the date of acquisition.

Goodwill arising on acquisition:

| | HK\$'000 |
|---------------------------------|----------|
| Consideration transferred | 10 |
| Add: net liabilities acquired | 36 |
| | <hr/> |
| Goodwill arising on acquisition | 46 |

Goodwill arose in the acquisition of Flowbox because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Flowbox. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflow on acquisition of Flowbox

| | HK\$'000 |
|--|----------|
| Cash consideration paid | 10 |
| Less: cash and cash equivalent balances acquired | (283) |
| | <hr/> |
| Net cash inflow included in cash flows from investing activities | (273) |

Included in the loss for the year ended 31 December 2023 is HK\$58,000 attributable to the additional business generated by Flowbox. Revenue for the year ended 31 December 2023 includes HK\$153,000 generated from Flowbox.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

31. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2023, the Group entered into new lease arrangements in respect of certain leased properties. Right-of-use assets and lease liabilities of HK\$1,544,000 (2022: HK\$1,006,000) were recognised at the commencement date of the leases.

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, both cash and non-cash changes. Liabilities arising from financing activities are those which cash flows were, or future cash flows will be, classified in the consolidated financial statements of cash flow from financing activities.

| | Non-cash changes | | | | | |
|-------------------|----------------------|-------------------------------------|--------------------------------------|--|--|------------------------|
| | 1/1/2023 HK\$'000 | Financing cash flows HK\$'000 | New lease arrangement HK\$'000 | Finance costs incurred HK\$'000 | Foreign exchange movements HK\$'000 | 31/12/2023 HK\$'000 |
| Bank borrowings | 35,318 | (19,860) | – | 1,404 | (393) | 16,469 |
| Other loans | – | 1,360 | – | – | – | 1,360 |
| Lease liabilities | 1,541 | (906) | 1,544 | 60 | (19) | 2,220 |
| | 36,859 | (19,406) | 1,544 | 1,464 | (412) | 20,049 |

| | Non-cash changes | | | | | |
|-------------------|----------------------|-------------------------------------|--------------------------------------|--|--|------------------------|
| | 1/1/2022 HK\$'000 | Financing cash flows HK\$'000 | New lease arrangement HK\$'000 | Finance costs incurred HK\$'000 | Foreign exchange movements HK\$'000 | 31/12/2022 HK\$'000 |
| Bank borrowings | 42,808 | (5,364) | – | 1,365 | (3,491) | 35,318 |
| Lease liabilities | 1,553 | (1,046) | 1,006 | 47 | (19) | 1,541 |
| | 44,361 | (6,410) | 1,006 | 1,412 | (3,510) | 36,859 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

33. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| <i>Notes</i> | 2023 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> |
|----------------------------------|--------------------------------|--------------------------------|
| Non-current assets | | |
| Investment in subsidiaries | 120 | 100 |
| Current assets | | |
| Amount due from a subsidiary (a) | 46,064 | 46,470 |
| Bank balances and cash | 17,755 | 120 |
| | 63,819 | 46,590 |
| Current liabilities | | |
| Amount due to subsidiaries | 120 | 100 |
| Other loan | 360 | – |
| Accrual | 1,665 | 120 |
| | 2,145 | 220 |
| NET CURRENT ASSETS | 61,674 | 46,370 |
| NET ASSETS | 61,794 | 46,470 |
| Capital and reserves | | |
| Share capital 25 | 5,760 | 4,800 |
| Reserves (b) | 56,034 | 41,670 |
| Total equity | 61,794 | 46,470 |

Notes:

- (a) The amount due from a subsidiary is unsecured, non-interest bearing and repayable on demand. The directors of the Company expect repayments from subsidiary within next twelve months from the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

33. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes: (Continued)

(b) Movements in reserves

| | Share premium <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|--|--------------------------|
| At 1 January 2022 | 48,589 | (6,078) | 42,511 |
| Loss for the year | – | (841) | (841) |
| Total comprehensive expense for the year | – | (841) | (841) |
| At 31 December 2022 and 1 January 2023 | 48,589 | (6,919) | 41,670 |
| Loss for the year | – | (2,076) | (2,076) |
| Total comprehensive expense for the year | – | (2,076) | (2,076) |
| Share issued (note 24) | 16,800 | – | 16,800 |
| Transaction costs on share issued (note 24) | (360) | – | (360) |
| At 31 December 2023 | 65,029 | (8,995) | 56,034 |